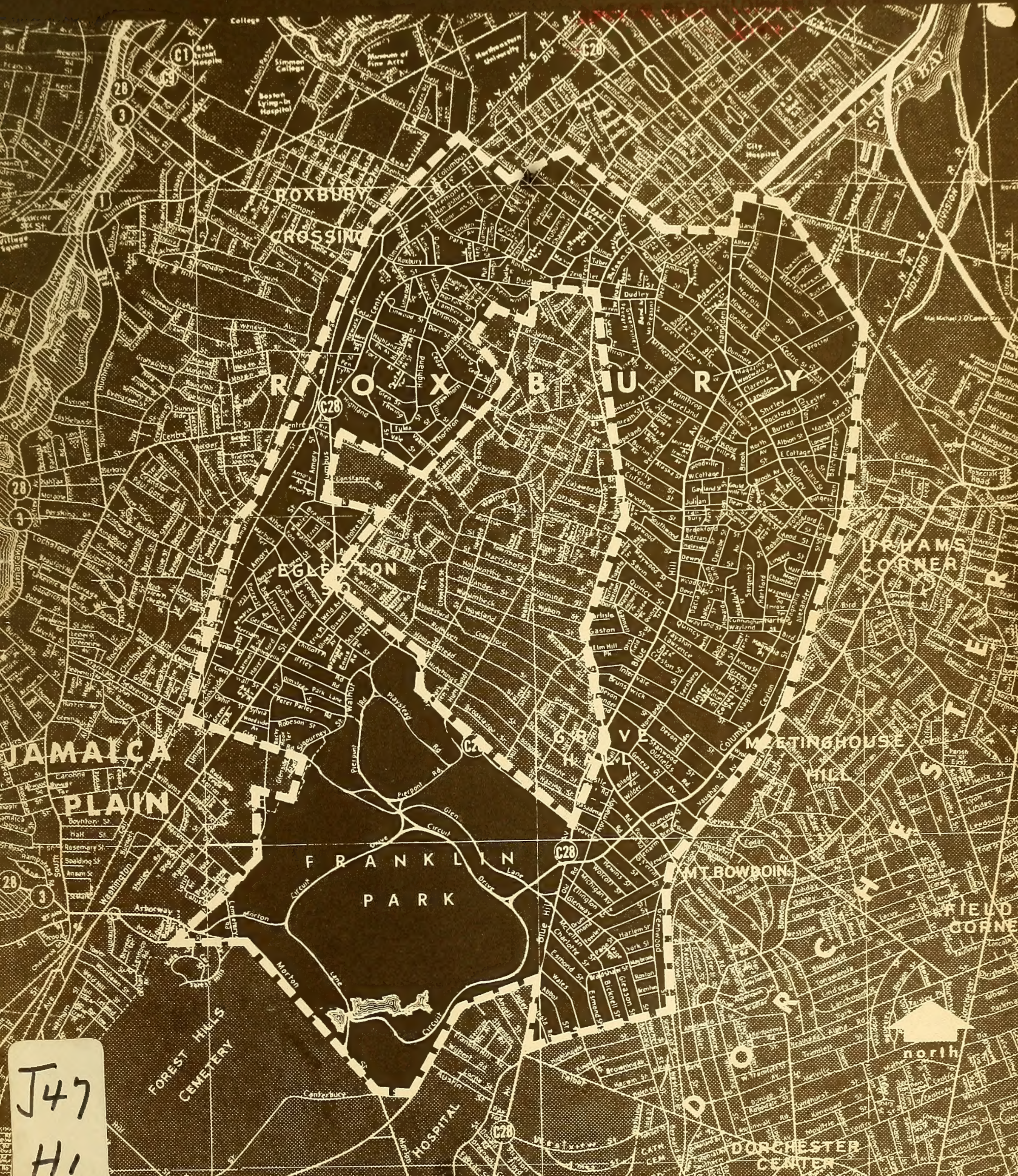
A HOME OWNERSHIP PROPOSAL FOR THE BOSTON MODEL CITIES AREA

HOUSING INNOVATIONS, INC. SUMMER 1968 VOL. II



A HOME OWNERSHIP PROPOSAL FOR THE BOSTON MODEL CITIES AREA - Vol. II

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TABLE OF CONTENTS

	Preface and Acknowledgements	i
I.	Introduction	1
II.	Objectives	5
III.	Economic Profile	11
IV.	Home Ownership Patterns	19
V.	Social Services	24
VI.	Alternative Proposals for Home Ownership	27
VII.	Failure of Delivery System	65
VIII.	Recommendations	82
IX.	Staging	104
X.	Appendices	
	A. Omitted	
	B. Case Studies	
	C. Economic Profile Tables	
	D. Ownership Patterns	
	E. Social Service Agency Data	
	F. 1968 Legislation	
	G. Cost Analysis	
	H. Federal Income Tax	
	I. Coops and Condominiums	
	J. Housing Costs	
	K. Insurance	

PREFACE AND ACKNOWLEDGEMENTS

As part of the general effort by the Model City Administration in Boston to develop concrete proposals for upgrading the Model Cities Area, Housing Innovations, Inc. was asked to prepare a brief report on the possibilities for home ownership within the Model Cities Area. We were asked to focus on concrete suggestions for the volume production of ownership housing and the maximization of choice for all income levels.

In addition to the normal investigations of administrative and legislative regulations, existing ownership programs, and literature in the field we felt in particularly important to interview the relevant actors which make up the housing industry. Cursory interviews of the users (tenants and homeowners), developers, bankers, and federal agencies were made. Additional studies in the area of actor desires and needs and the interrelationships among the actors and the regulations governing them are clearly indicated. These studies would provide the MCA with a more sensitive tool, for choosing alternative actions and predicting their results, than we were able to produce for this brief report.

We would like to particularly thank Mr. Charles Field, Mr. Robert Shafer and Mr. Leroy Willis who served as special consultants to this project. The work, comments, and criticism of the following people were also particularly useful: Mr. Roy Beasley, Mr. John Bok, Mr. Christopher Maltas, Mr. George Morrison, Mrs. JoAnn Newman, and Mr. Steven Sparks.

The report would not have been possible without the generous assistance of the following agencies, institutions, and corporations; the regional representatives of FHA, HAA, URA and Model Cities; the local FHA, the Boston Housing Authority, Boston Redevelopment Authority, and the Tax Assessors; The Development Corporation of America, First Realty Corporation, New England Development Corporation, South End Community Development Corporation, Inter-faith Housing, and Eastern Gas and Fuel; North East Federal Savings and Loan, Boston Federal Savings and Loan, First National Bank, Warren Street Bank Group, the Unity Bank, and the OEO Credit Unions; and the residents of the Model Cities Area, who graciously allowed us to test with them the various ideas proposed herein.

Note: A more concise version of this report will be found in Volume I.

I. INTRODUCTION

In the 350 blocks of Boston's Model Cities Area, 62, 500 people are crowded into approximately 20, 000 units of housing. Fifty per cent of the predominantly black population here have incomes below $5000. The housing stock consists primarily of two- and three-family frame dwellings interspersed occasionally with brick row houses and apartment buildings; the majority are badly deteriorated and absentee-owned. Relatively few vacant sites scattered throughout the Area - some large, a number smaller - could be developed with new housing.

In Boston, as throughout the nation, a trend has surfaced towards more grass-roots control of black communities and poor communities. That the Model Neighborhood Board and the Model Cities Agency have requested the formulation of a comprehensive program to promote homeownership is one expression of and response to this trend. In Roxbury, people's long standing desires to own their own homes have existed as part of a general American ideal - distinct from any particular philosophy of black control of black neighborhoods. Desire for homeownership exists and is frustrated among the poor white minority of the Model Cities Area as well as among the poor black majority.

In recent years homeownership has come to be regarded, among influential portions of the nation, as a solution to the problems of the ghetto. The Percy legislation reflected this feeling. But homeownership is far from being a panacea for all ghetto maladies. A comprehensive attempt, however, to increase the percentage of ownership in areas such as the Model Cities Area would substantially benefit efforts to solve many problems.

White areas of Boston, which are not deteriorating - though comparable to the Model Cities Area in age, housing stock, and resident income - have a higher proportion of homeownership. For most people, the transition from tenant to owner status has meant a change in attitude toward what is at stake in the development of the community. And almost invariably, those Model Cities subareas where the percentage of ownership is 80% or higher are those which are stable and where houses are in good condition.

On the basis of our study, we believe that homeownership will help significantly to stabilize and restore the Model Cities Area. We attempt here to develop a program which would make possible ownership of all types of one- to four-family houses for people of all income levels within the Model Cities Area.

Contrary to current opinion, family earning capacity is not the most important index of ability for homeownership; the qualities of responsibility, stability, and management and maintenance knowhow can be found and developed among people of all income levels. Income, therefore, should be no bar to ownership.

In order to propose programs, we first delineate the contemporary standing of homeownership in lower income areas: who owns now, who wants to own, and who can afford to own. These issues are discussed in the "Economic Profile" and "Ownership Patterns" sections of this report with the conclusion that a market for homeownership does exist in the Model Cities Area.

A number of influential federal assistance programs are already in operation. Even under the best combination of federal programs - described in the "Alternative Homeownership Program" section of the report - the volume of housing required to satisfy local demands is not forthcoming.

This unpromising situation is a result of the reactions of different housing "actors" - developers, banks, insurance companies - to the tedious, and often unrewarding, process of housing production in declining areas of our cities. Our analysis of actor behavior

points out the major snarls confronting the various actors. Based upon this analysis, a number of direct steps and studies aimed at resolving the problems are recommended - from legislative changes to local actions by public and private groups.

At the conclusion of the report, time, cost, and personnel estimates for implementation, administration, and consulting are provided.

II. OBJECTIVES

Increased homeownership by residents in the Model Cities Area is a positive program geared to the desires of the local population. Preliminary interviews with local residents and organizations involved in homeownership programs strongly indicate a desire by many renters to become homeowners. First preference is for single-family detached housing because of the complete privacy offered by such units. Because single-family detached housing is, for a number of reasons, unavailable, families would accept ownership of two to four family units - with the appropriate architectural design and financial benefits. In either case, the demand for ownership housing is present.

Black families are tired of a "project" existence. They want to control their own housing, to taste saying this is mine, to enjoy the security of their own home. There is nothing strange or new about these desires. White Americans have overwhelmingly expressed the same sentiments for years.

The homeownership program, while responding to market demands, is an attempt to upgrade the physical environment by increasing the proportion of owner-occupied units and reducing the number of absentee-owned

units. The value of resident-owned housing in upgrading and maintaining low income neighborhoods has been graphically documented by George Sternlieb in the Tenement Landlord. This Newark, New Jersey, study showed that resident-owned houses were better maintained than absentee-owned housing. Studies within the Boston Model Cities Area indicate that resident-owned homes are in better condition and contain fewer problem families than comparable absentee-owned homes. In addition to the physical benefits of an increase in the proportion of resident-owned properties, social benefits may accrue to the community. Investment in one's home may lead to greater involvement by homeowners in the affairs of the community. The home is part of the community environment.

PROGRAM OBJECTIVES

1. The primary objective of this program is to increase the opportunity for homeownership for people in the Model Cities Area. The percentage of owner-occupied units in the Area is almost half of that found in nearby white areas of similar housing types. Resident-ownership should be increased in the Model Cities Area. This means bringing ownership within financial reach of

lower income households (approximately \$4000 yearly income) as well as of moderate (\$5000-\$6999) and middle (\$7000-\$8999) income families. To be within financial reach, lower income families should pay about 15 - 20% of gross income toward total shelter costs.

2. Downpayment often represents a major stumbling block to ownership. Favorable loan-to-value mortgages are available, but downpayment requirements inhibit low income people from participating in the programs. A successful model cities program must <u>reduce</u> downpayment requirements to manageable levels. For those families in the less than \$4000 income class, downpayment should not exceed \$200. Moderate and middle income families should not pay more than \$1000.

3. Local residents should be provided a <u>choice between types of housing</u>. New and existing, single-family and multi-family units should be made available on the market. Therefore, a program must be developed to provide the variety of choice required to serve the needs of the Area's residents. All families will not have a full choice of housing types. Selection is limited by the existing housing supply which consists predominantly of 2 and 3-family units and by the limited amount of vacant land for new construction. Lower income

families should be encouraged to purchase small multi-unit homes because it is to their economic advantage to do so.

4. Single ownership is not the sole form of ownership. In some situations, Cooperative and Condominium offer viable alternative forms of control over one's own shelter as well as acceptable modes of ownership.

5. Many Model Cities residents who desire homeownership have never experienced the obligations and problems associated with ownership. To some families, management, maintenance, and income budgeting, filing tax forms and making use of tax deductions, for example, may be new concerns. It will, therefore, be important to make sure these people can acquire the information and skills necessary to operate a home.

6. Homeownership represents a financial investment which grows as the mortgage is paid off. This investment may grow to be a substantial proportion of a family's savings. Since low income families are frequently faced with fluctuations in their incomes, their equity investments are highly susceptible to loss by default and foreclosure. A comprehensive homeownership package must be devised wherein an owner's equity

position can be protected against temporary losses in income.

7. Immediate action and results are needed in the Model Cities Area. Although homeownership is not the panacea for the multitude of problems facing Model Cities residents, rapid implementation of the program will represent a positive commitment to the community. There are homeownership programs which can be implemented today at little cost to the city or federal authorities involved.

8. A homeownership program would upgrade the Model Cities Area; the quality of housing would be improved by rehabilitation and construction as well as by the existence of larger numbers of resident-owned properties. Priority should be given to the tenant acquisition of absentee-owned housing that is substandard or a focus of social decay. Local participation by community based groups would facilitate operating decisions, as, for instance, in assessing the condition of a structure to determine either to rehabilitate or demolish for new construction. The increased number of individual home investments should increase commitment to the community.

9. One or several community based corporations

should be created to fill the gaps where the private developer fails to respond to the housing needs of model neighborhood residents. Such a corporation may be actively involved in both the production of housing and the provision of social services for homeowners.

10. To bring administrative control closer to the community and to insure that decisions are responsive to local needs, an appropriate community group should be delegated with some powers, normally held by city, state, and federal agencies. This will insure local control over the quality and type of housing in the Model Cities Area.

11. The homeownership program should attempt to maximize the economic activity within the low income community - by the members of the community. This, of course, means seeking maximum participation by local labor, builders, developers, financial institutions.

12. To reach any meaningful size, the homeownership program must directly and maximally involve private resources and private talents.

13. The private system of bringing homes into the low income market will not get off the ground without incentives and subsidies from the public sector; the success of homeownership in the Model Cities Area will require favorable public decisions.

III. ECONOMIC PROFILE

Model Cities residents have a lower average income than the average for the city as a whole. As reported by Action for Boston Community Development (ABCD), over 50% of the Model Cities population in 1964 had incomes less than $5000. (See Appendix C, Table I) According to ABCD, 46% of the families had incomes ranging from $4000 - $5999, the minimum income range for participation in the homeownership programs.

We stress that income is not the sole determinant of ownership eligibility. Stability of income, fiscal responsibility, good budgeting habits, and maintenance knowhow are other important qualities for a homeowner. If a low income person earning less than $4000 had these qualities and if sufficient subsidy were provided, there is no reason to assume he would not be a successful homeowner.

A 1967 survey of part of the Model Cities Area indicates there has been a downward shift in the income distribution of the population since the 1964 ABCD survey. (See Appendix C, Table II) The findings show that there continues to exist a large proportion of lower income families who, regardless of tenure desires, cannot afford homeownership under the past administration

of housing programs.

To buy a house, a family requires two sources of funds: first, sufficient current income to cover operating costs and debt service payments; second, sufficient savings, assets, or collateral for borrowing to meet the downpayment normally required upon the purchase of a home.

How much do people actually spend for shelter? Between 1960 and 1961, homeowners in the Northeast spent between 15% and 34% of total annual consumption expenditures for shelter. (See Appendix C, Table III) As this illustration covers all northeastern households, urban and rural, the figures fall below the expenditures required of a metropolitan family.

How much should people pay for housing? Some housing programs require low income homeowners to spend 25% of their income on housing. This approach fails to take housing costs in proper relation to other costs. Shelter is only one of the basic needs of the family. Food, clothing, medical care, education, and transportation compete with housing for allocation of household dollars. The low income family struggles with insufficient funds to find ways to meet all these needs. For this family, overweighting the budget on

housing will severely slight one or more of the other basic areas.

In considering possible homeownership programs, we should look at the total shelter expenditures with which an owner must contend. These include the costs of interest and principal payments, mortgage insurance premium, real estate taxes, insurance on the home and its contents, water, refuse disposal, heating fuel, gas, electricity, home repairs and maintenance. In addition, it is important to set aside funds to cover major repairs - painting, repair of heating units, reroofing - which are not annual expenditures.

A 1966 study by the Bureau of Labor Statistics calculated an adequate budget for a City Worker's Family.* According to the study, an adequate budget in Boston cost $10, 505 - almost twice the average gross income in the Model Cities Area. Shelter, which corresponds to our definition of total housing expenses, costs 24% of gross income in Boston compared to 21% in all other metropolitan areas. (See Appendix C, Table IV) Of 43 metropolitan areas studied, Boston had the highest

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* The budgets were estimated for a four-person family: husband employed, age 38; wife unemployed; and two children, a girl age 8 and a boy age 13.

index of housing costs, even surpassing the New-Northeastern New Jersey Standard Metropolitan Statistical Area. The high cost of shelter here is a major obstacle to bringing homeownership to low income families.

Obviously, a budget of $10, 505 neither reflects the income nor takes into account the multiple problems of lower income families. A 1960-61 Survey of Consumer Expenditures by the Department of Labor does bring us closer to the actual budgets of Model Cities residents. As income decreases from the moderate living standard of $10, 505, the proportions of income spent on shelter (debt service, mortgage insurance, and taxes as defined in the survey), utilities, and medicine increase. The proportion spent on food also increases, but not as quickly. These inverse proportions reflect the importance of basic necessities to the family - especially the low income family, whose small pool of resources can be so quickly drained by vital needs which many families take for granted. (See Appendix C, Table V)

The figures in Table V do not indicate what amounts should be allocated to specific items; rather they reflect the pattern of observed expenditures. The decreasing proportions of consumer expenditures for

education, food and transportation indicate the lowered priority of these items for the lower income family. Lower priority, however, does not necessarily mean these goods are not necessary or desired, but rather there are insufficient funds with which to purchase them.

Our effort within the context of Model Cities is aimed at providing homeownership at a cost that does not discourage or distort a low income family's opportunity for self-improvement. Housing represents a significant portion of the budget. If housing expenditures can be reduced to approximately 20% or less of total income, we can liberate funds for other family demands such as education, food, transportation (to a better job, perhaps), etc. Low income families can only benefit from increased funds to spend on these items. If our homeownership program demands too much of the family budget, thereby reducing expenditures in other key areas, we will have only aggravated the obstacles to upward mobility.

Almost all home purchases require a cash downpayment - a hurdle that often bars low- and moderate-income people from ownership. Usually downpayments are drawn from savings accounts or other liquid reserves,

not from current income. Because data on savings is almost non-existent for the Model Cities Area, it was necessary to turn to national studies. A 1962 survey by the Department of Labor documents the common assumption that the level of savings by lower income families is not very high. (See Appendix C, Table VI) Younger households are in a particularly weak downpayment position. (See Appendix C, Table VII) The average household head under 25 years of age has saved only $256; the average household head between 25 - 34 years of age, has managed to accumulate only $647.

Low income families do not save much money because they are forced to expend most of their income day to day. When daily needs increase or income decreases, as many as half of these people draw on what little savings they do have to cover daily costs. (See Appendix C, Table VIII)

Expenditure of savings for downpayment, therefore, would only jeopardize a low income family's capacity both to maintain current consumption patterns and to take care of emergencies. When income and net savings are not sufficient to cover current expenses, the possibility for default on mortgage increases. Requiring a high downpayment - a requirement often

viewed as a safeguard - actually raises chances of default.

The survey sponsored by Housing Innovations, Inc., (HII) in 1967, further documents the downpayment difficulties of Model Cities residents. (See Appendix C, Table IX) People who expressed a desire for ownership were asked how much they could afford to pay for downpayment on a house. Close to 80% of those respondents earning less than $4000 indicated an inability to pay any downpayment; all of the remaining 20% in this income class, who stated they could pay something, said they could only afford less than $500. As income rose above $5000, indication of capacity to pay over $500 for downpayment did increase, but, of the entire group of respondents, only 14% were willing to consider spending more than $500; close to 60% felt they could not afford any downpayment at all.

At neighborhood meeting, furthermore, HII personnel were told by those interested in homeownership that securing several hundred dollars for downpayment would be a severe burden for many young families.

Several guidelines emerge from analysis of these surveys.

First, in cases where chances for default on

mortgage payments are increased by downpayment requirements, lenders would hesitate to grant mortgages.

Second, as loss of equity through foreclosure would represent a substantial loss - both in self-esteem and money - for a lower income family, we must minimize the possibility of foreclosure.

Third, traditional downpayment procedures must be altered if we seriously consider extending homeownership to lower income families - by allowing families either to have 100% mortgages or to borrow downpayment funds.

Fourth, 15 - 20% of current income would be a reasonable proportion to spend on total shelter costs. For lower income families, savings on shelter costs are translatable into increased expenditures for education and transportation, important avenues to economic mobility.

IV. HOME OWNERSHIP PATTERNS

In the Model Cities Area, the home ownership pattern differs sharply from that of comparable white areas: resident-ownership is far less frequent, which means that the rate of absentee-ownership is high. Despite the existing pattern, desire for ownership among residents is strong.

A sample of the 1960 Census provides evidence of the size of the gap between white and black tenure patterns. Table I compares 1960 white and black tenure patterns for families in the Northeast.

TABLE I

1960 TENURE OCCUPANCY BY RACE AND INCOME IN CITIES OVER 500,000: NORTHEAST

Income ($1000's)	Race					
	White			Black		
	Own	Rent	Total	Own	Rent	Total
Less than 4	41.3	58.7	100.	26.7	73.3	100.
4 - 6	53.3	46.7	100.	39.0	61.0	100.
6 - 8	65.4	34.6	100.	33.3	66.7	100.
8 - 10	71.4	28.6	100.	37.5	62.5	100.
10 - 15	76.4	23.6	100.	33.3	66.7	100.
15 plus	88.3	11.7	100.	___[1]	___	___

1. Insufficient observation

Source: Computed from the "1/1000 Census Survey of Population and Housing."

At each income level, the proportion of black owners is significantly less than that of white owners.[1] While the percentage of white owners increases with income from a low of 41.3% to a high of 88.3%, the black increase begins at 26.7% and never reaches 40%. White ownership continues to rise above $8000, to the income ranges in which ownership is most financially feasible; black ownership, conversely, levels off and then <u>decreases</u>. These figures show a dramatic variance in the normal economic patterns of home ownership. Factors other than lack of sufficient income have significant bearing here. Some of these factors are obvious; the first two are frankly discriminatory:

1) Prejudice against blacks has made difficult the procuring of necessary financing for mortgages and downpayments.

2) Assessment figures have not kept pace with declining market values in the Model Cities Area. Over-assessment has placed an unfair real estate tax burden on property in the Area and has thus discouraged ownership.

3) The housing stock, with its high proportion of substandard units, offers a severely limited range of choice to potential owners. Blacks desiring a housing

choice of the kind available to whites cannot find it within the Model Cities Area.

Large discrepancies in the rates of black ownership and absentee-ownership exist between the Model Cities Area and neighboring white areas. Resident ownership of housing in the Area is far below the levels in comparable white housing areas to the south and east of the Area. In 1960, the proportion of owner-occupied units in the Area, measured at the census tracts level, averaged between 6% and 26%, and over half the census tracts showed less than 20%. In fifteen comparable white census tracts with similar housing types, the average varied between 14% and 48%, with three-quarters of the tracts exceeding 30%. In almost all Area census tracts, the share of black owner-occupied units was less than the black percentage of the population. (See Appendix D for Census Tract statistics.)

Comprehensive data on the ownership preferences of model neighborhood families is unavailable. However, the Housing Innovations, Inc. (HII) 1967 survey, *

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* One major problem we encountered was the lack of current data for the Model Cities Area. The HII survey, although small, was the most applicable for our analysis. Often we had to utilize city-wide, regional (Northeast), or even national surveys - as in the case of consumer savings patterns. The findings of these surveys

interviews with local residents, and reports from local housing developers all indicate the existence of an unfulfilled local demand for ownership housing. The HII survey of 112 rental residents in a three-block area asked whether the interviewee desired to own a house. Approximately 64% did; 36% preferred to continue as renters. There appears to be no major difference in ownership preference among low and moderate income groups. As shown in Table 2, 64% - 75% of all groups, except the $4000 - $5000 class, favored home ownership.

There is some indication that higher income families would prefer to own a home outside the Area, partly because the Area is not as prestigious as outlying locations such as Sharon; although greater clarification of the trend is required, the demand for local ownership in the lower income range appears considerable.

Approximately 65% of all families who expressed a preference for ownership had incomes of less than

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indicate only the direction, not the absolute magnitude, of the change of the phenomenon measured. In the Model Cities Area, change is rapid; given the speed of those social, economic and physical alterations, and the anticipated infusion of substantial sums of capital into the area, the need for more accurate and timely data is crucial. Without it, calibrating the amounts of individual investments and evaluating the effectiveness of those investments will be most difficult.

$5000. It seems reasonable, then, to direct home ownership efforts towards the lower income family.

TABLE 2

HOME OWNERSHIP DESIRES OF MODEL CITY RESIDENTS IN HII SURVEY AREA 1967

	Home ownership Desire					
	No. of people interviewed			Percentage of people interviewed		
Income	Yes	No	Total	Yes	No	Total
$0 - 3999	26	10	36	72	28	100%
$4000 - 4999	9	12	21	42	58	100%
$5000 - 5999	6	2	8	75	25	100%
$6000 - 6999	4	2	6	67	33	100%
$7000 plus	9	5	14	64	36	100%

N = 85

Source: Survey for Housing Innovations Inc. conducted by NECDC. 1967

V. SOCIAL SERVICES

Many prospective Area homeowners lack a tradition of home ownership and therefore are untrained to handle the new responsibilities it will bring. Without supporting social services - home improvement training, maintenance instructions, environmental health (rodent control), legal services, financial counselling, advice in management-tenant relations, etc. - unanticipated obligations and pitfalls of ownership and management may prove too difficult for the lower income owner. These unforeseen difficulties may, in fact, undermine the effectiveness of the entire home ownership program.

A current survey of private social services by Action for Boston Community Development Inc. (ABCD) reveals the lack of such home ownership services in the Boston Area. In the Model Cities Area, only Fair Housing, Interfaith Housing, Roxbury Multi-Service Center, American Friends Service Committee, Boston Redevelopment Authority, and Housing Innovations provide ownership-directed services, and these programs reach only a small number of people. The ABCD survey recorded that in the entire City of Boston, there is only one agency that provided consumer education and financial counselling, three purchasing cooperative

enterprises, one agency that provided home improvement training support, one agency that counselled on the construction and operation of housing for low and middle income groups, two agencies consulting on rehabilitation of existing housing for low or middle income families, and two that advised on neighborhood maintenance, improvement, or development. (See Appendix E for full listing of agencies by function performed.) This level of service does not begin to meet the current needs in Boston and is minute in comparison to the level of support required under the proposed home ownership program. Not only is there a lack of social services; there is no referral system or publicizing for current programs. Consequently, few homeowners know of the available programs.

The provision of adequate social services will require three parallel efforts. First, existing home ownership services should be expanded by the infusion of extra funds and trained personnel. Where services are lacking or where existing agencies cannot expand to meet the anticipated demand, new agencies, public or private, must be funded and staffed. Second, some organization in the Model Cities Area, preferably MCA-MNB, should establish an information and

referral office. Homeowners, by contacting this office, will be directed to the appropriate agency. And third, developers may have to provide social services personnel themselves.

VI. ALTERNATIVE PROPOSALS FOR HOMEOWNERSHIP

A. Introduction

This section sets forth alternative proposals for the transfer of housing from tenancy to ownership. It deals with one- through four-family dwellings and multi-family structures. It seeks to provide guidelines for the income levels needed to support homeownership of varying types of structures under different finance mechanisms and under various costs of construction and operation. Both new construction and rehabilitation of existing structures are examined. There are two major financing aspects of homeownership: (1) the downpayment and closing costs; (2) the annual cost of paying the mortgage, taxes, interest, and other operating expenses. The former has been dealt with in another section; the latter will be covered here. For purposes of discussion the subject has been divided into three sub areas: (a) construction financing; (b) "ripening" financing where ripening is used to denote the period between the completion of construction and the actual transfer to ownership; the dwellings will be occupied during this period and the occupants (future owners) will be renters. The period

serves two basic functions: it allows the developer-sponsor to provide prospective homeowners with a trial period for gaining familiarity with new responsibilities; and it affords a time for tenant-incomes to grow to the level necessary to afford ownership and for tenants-savings to grow to the level necessary to afford down-payments; (c) permanent financing where permanent is used to denote the period during which the title is in the hands of the individual homeowners.

Before the specific program recommendations are presented, a brief summary of the more useful, important or interesting financial tools will be given. In the next section special consideration should be given to problems in the areas of maximum mortgage amounts, downpayments, red-tape in processing, closing costs and interest rates.

B. Summary of Finance Tools

(a) Mortgage Financing

(1) A "Conventional" mortgage has no governmental assistance. It has an interest rate of 7 plus percent; a "loan-to-value ratio" (ratio of mortgage amount to purchase price) of 80%, and a term of 25 years.

(2) Section 203(b) Mortgage Insurance.[1] Under this program FHA will insure 30-year mortgages at 6 3/4% interest plus 1/2% FHA mortgage insurance. The loan-to-value ratio is 97% of the first $15,000; 90% of the next $5,000, and 80% of the amount in excess of $20,000.[2] Section 203(b) has a lower downpayment than a conventional mortgage. It is available to the individual owner of one- to four-family houses.[3] No cost certification is involved in the program; FHA merely makes a simple appraisal of the property. The total amount of red tape is minimal.

(3) Section 221(d)(2) Mortgage Insurance.[4] This program is virtually identical to section 203(b) except that the maximum mortgage amounts for one- and two-family houses under section 221(d)(2) are substantially lower than under section 203(b);[5] and section 221(d)(2) allows a lower downpayment than 203(b). The section 221(d)(2) minimum downpayment is $200 per unit for a displaced family, and 3% of the purchase price for others. Because of the lower downpayment section 221(d)(2)

is more useful than section 203(b) but because of the relatively low maximum mortgage amounts for one- and two-family houses it's usefulness is limited to three- or four-family houses.

(4) Section 220 Mortgage Insurance.[6] Section 220 is limited to Urban Renewal Areas and can be applied to one- to eleven-family houses. For one- to four-family houses, it is virtually identical with section 203(b). It is an appraised value program and does not involve any cost certification. The downpayment and interest rate are identical to those of section 203(b). The maximum mortgage amounts are identical to section 203(b) except that for each family unit above 4, $7000 per additional unit is allowed.

(5) Section 221(d)(3) Below Market Interest Rate (BMIR).[7] Except for cooperative housing, this program was a strictly rental program until recent amendments. It provides mortgages at a 3% interest rate with a 40-year term and 90 to 100% loan-to-value ratios depending on whether the developer is profit,

non-profit or public. In 1966 section 221(h) was added to make these loans available to individual purchasers of rehabilitated single-family homes.[8] Section 221(h) was extended to two-family houses in 1968. One significant aspect of 221(h) is that the downpayment need only be $200.[9] In 1968 Congress added sections 221(i) and 221(j)[10] which provide that any unit in a BMIR project could spin off into a condominium or cooperative at the 3% interest rate. One major problem with BMIR seems to be that it only pays if you have at least 50 - 100 units; this is a result of the high legal and administrative costs which must be incurred to process application of any size. Among these costs are those associated with cost certification. Of all these BMIR programs, section 221(h) would be the most useful, if it were extended to three- and four-family houses.

(6) Section 235 Mortgage Insurance and payments to the mortgagee on behalf of the mortgagor.[11] In theory this program, which was added in 1968, is designed to provide the low income

home buyer with a 1% interest rate mortgage. As Appendix G will demonstrate, this is not the case in the Northeast. The principal fault lies in the design of the formula used to calculate the amount of the payment to the mortgagee. The formula excludes maintenance and heat, large expense items in cold climates. Another fault in the program is its restriction to one- and two-family houses and single family units in condominiums. As a result this program plays a minor role in the recommendations of this report.

(7) <u>Section 312 Loans for Rehabilitation.</u>[12] The Secretary of HUD, through local public and private agencies, makes loans to owners and tenants of property to finance rehabilitation. The loans bear an interest rate of 3% and have a maximum term of 20 years. The maximum mortgage amount is $10,000 per family unit, subject to a 45% increase in geographical areas with high costs. Up to 1968 this program was restricted to Urban Renewal Areas; now it is also available in any area which the governing body has determined to

contain a substantial number of structures in need of rehabilitation, which has a workable program, and which is definitely scheduled for rehabilitation or code enforcement within a reasonable time. But this 1968 expansion applies only to owner-occupants of residential property. In general the loan can be used only to finance the rehabilitation costs, but an owner-occupant of a one- to four-family house can refinance existing indebtedness if such refinancing is necessary to enable the applicant to amortize both the loan and other indebtedness on the property with no more than 20% of his average monthly income.

The loan is administered by the local public agency, the Boston Redevelopment Authority. It holds the amount of the loan in escrow except that portion which is used to refinance existing indebtedness. The money is paid out as the work is completed; there are no advances. And the payments amount to no more than 80% of the cost of the construction that has been completed at

the time of the payment. Administrative processing is long, involved and time-consuming.

(b) Direct Subsidies and Related Matters

(1) Housing Assistance Administration (HAA) (formerly the Public Housing Administration). The HAA subsidies are available under two different programs: section 10(c)[13] and section 23.[14] Both are leasing programs under which the local housing authority leases the units from private owners and then subleases the units to tenants at lower public housing rents. The local housing authority (Boston Housing Authority - BHA) pays the owner the market rent. There are three basic differences between the two sections: (i) Section 10(c) is only available where the state or local government grants the dwelling units an almost complete exemption from real estate taxes or contributes the equivalent amount to the local housing authority;[15] section 23 does not require a real estate tax benefit. (ii) Section 10(c) is a long-term (up to 40 years) leasing program, while section

23 is a short-term (5 to 20 years) leasing program. (iii) Section 23 leases can be executed by the local housing authority (BHA) without approval of federal officials; section 10(c) must be passed on by federal officials. As a result section 23 processing is much simpler than section 10(c). The requirement of a tax exemption under 10(c) often means action by the local governing body; this could make implementation of such a program less likely, and it could increase the "red tape" costs that would confront a developer. Yet the tax exemption may be necessary to reach low income persons.

The following table outlines the maximum contribution that BHA is currently authorized to make under its 1966 annual contributions contract with the federal government.

TABLE 3

Bedrooms	Maximum BHA Contribution
0	56.08
1	64.08
2	80.08
3	96.08
4	120.08
5	136.17
6	152.17

It is important to note that BHA must also pay its overhead out of these figures. Therefore the maximum contribution to the tenant is somewhat less than indicated in the above table. Note that these figures are several years old; interest rates and construction costs have subsequently risen; therefore it might be possible to increase these figures by 20 percent.

Finally, it is very important to recognize that HAA subsidies are not available to persons who hold the legal title to the dwelling unit.

(2) Rent Supplements.[16] Subsidy payments are

made to families whose incomes make them eligible for public housing. The payments are equal to the difference between the fair market rental (or economic rent) for the dwelling unit and 25 percent of the tenant's income. The payments are only available to housing constructed or rehabilitated under certain federal mortgage insurance programs, largely section 221(d)(3) market interest rate, and, as of the 1968 Housing Act, state programs. These are not very important for our purposes because they are only available to renters and are not likely to be used by the tenants in owner-occupied two- or three-family houses. Statute and administrative guidelines are basically orientated towards "projects."

(3) Section 115 Grants for Rehabilitation.[17] Under this program the Secretary of HUD can authorize the local public agency to make grants to the owner-occupant of one- to four-family houses to cover the cost of rehabilitation. The maximum grant is $3,000, but it cannot exceed the actual cost. To qualify

the applicant must have either an income less than $3, 000 per year or monthly housing expenses (including mortgage payments, fire and hazard insurance, maintenance, heat and utilities) greater than 25% of his monthly income. In the latter case the amount of the grant is further limited to the excess of housing expenses above 25% of income. Up until 1968 this program was limited to Urban Renewal Areas; now it has been expanded to the same extent as section 312, discussed above, and on the same conditions.

(4) Welfare Payments. It is common for the state welfare department to make payments to low income families for the purpose, among others, of covering rental costs of dwelling units. Recently welfare officials have been making such payments to low income families who have purchased their own homes; these payments go towards the mortgage payments. In addition to making the payments, the welfare department has signed a waiver of any claim against the equity in the property. The welfare

department has found that, in the case of large families, financing the purchase of unrehabilitated housing is less expensive than sponsoring rental housing.[18] It is not clear whether the same finding would apply to new or rehabilitated housing. One possible problem is the upper income limits on eligibility for welfare assistance. (See the case study of Fair Housing Inc. in Appendix B.)

(5) Section 208 of the Housing and Urban Development Act of 1968. This new amendment to section 23 of the Housing Act of 1937[19] empowers local housing agencies to purchase dwelling units which have been leased to low income persons under section 23, see (ii) above, for the purpose of reselling the dwelling(s) to the tenant(s). In addition, the local agency (Boston Housing Authority) can defer the downpayment and eliminate or adjust the interest payments for a temporary period, and can include such terms and conditions as may be necessary to enable the tenants to make the purchase without undue financial hardship.

C. Methodology

The main purpose of our analysis is to estimate the total housing cost to the occupant of various types of housing under varying costs during the ripening and permanent periods. To achieve this goal, a detailed flow chart has been devised. See Appendix I. One-family, two-family and three-family houses were analyzed on this chart. A condominium unit[20] will have essentially the same total housing costs as a comparable single-family unit.[21] And a cooperative will have essentially the same total housing costs as a single-family house during the ripening period. Note that it may be possible under some condominium programs to have one family as the owner of three or four units;[22] conditions would then be analogous to those for a three- or four-family house. Each family unit is assumed to contain three bedrooms.

For each type of house, varying construction or rehabilitation costs plus acquisition costs were analyzed under several finance tools or combination of tools. Monthly debt service, real estate taxes, monthly operating expenses, and monthly subsidy payments were computed and combined appropriately

to determine net total housing costs to the occupant. The operating expenses include heat, gas, electricity, water, sewer, fire and hazard insurance, mortgage (death) insurance, maintenance, and reserve for repairs.[23] Premiums for loss of income and disability are not included although they are recommended, especially for low income families. Real estate taxes were calculated either on the basis that they will equal 15% of imputed gross rentals or that the assessed value will equal 1/3 of the purchase price with a tax rate of $130 per thousand. It is typical for BMIR financed development to receive the former tax treatment.

The net housing cost is then converted into gross family income for two differing assumptions: (1) that the occupant ought to contribute no more than 20% of his gross income to net housing costs; (2) that the occupant ought to contribute no more than 25% of his gross income to net housing costs. The effect on annual gross income of changes in operating costs can be analyzed by selecting a given variation and converting it into a change in annual gross income. For example a reduction of $15 per month in operating expenses is equivalent to a reduction of

$900 per year in gross income under the 20% assumption and $720 per year in gross income under the 25% assumption.

The operating costs during ripening do not include management and janitorial fees in the flow analysis because the proposals hope to minimize these costs by having one (or more) of the occupants take care of most property management and maintenance. The impact of an added management fee is here estimated at 10 - 15% of gross rentals, that is, management without occupant assistance. Therefore a $200 monthly gross rental would include a management fee of $20 to $30 per month. This is equivalent to an increase in minimum income levels of $1, 200 to $1, 800 per year under the 20% assumption, and $960 to $1, 460 per year under the 25% assumption. But before a program's income levels are increased the availability of unused HAA or other subsidy should be investigated; if there is unused subsidy available it can be used to reduce the increase in required income levels because of management fees, or any other increased costs.

Homeownership provides the federal income tax paying owner with certain benefits. He can

deduct from his gross income the amounts paid for interest on the mortgage and for real estate taxes. In addition he may take a depreciation deduction on the units that he is renting to other persons. The sum of these deductions multiplied by the taxpayer's tax bracket produce a figure which is the amount of his tax saving; that is, it is the amount by which said deductions will have reduced his tax bill. This tax saving cannot be calculated until the owner's tax bracket is known, but for our purposes it will be fair to assume a tax bracket of 18 per cent. Taxable income, aside from the above deductions, must exceed the sum of the deductions available due to homeownership, and this may not always be the case; for example, a family of six or seven with an income of $4000 would have no taxable income regardless of the deductions available from homeownership. In addition, note that the interest deduction decreases with time; if depreciation is accelerated, the depreciation deduction also increases. Because a tax saving is so dependent on family size and family income, it has not been included in the Cost Analysis Charts. Appendix I contains some estimates of the possible impact of tax savings.

Some programs have been accorded separate treatment either because they were not suited to the above cost analysis - section 115 - or because they are especially interesting for our purposes - section 235.

On the basis of this analysis several conclusions can be drawn. The most important is that under existing financial tools and subsidy programs a three- or more-family new or rehabilitated house can be owned and one unit occupied by families earning the modal income of $4,000 per year. The restriction to three- or more-family houses is principally due to the need for subsidies in addition to the benefits of mortgage financing, the limitation of most available subsidies to families who do not hold legal title (HAA and rent supplements), and the inadequacy of subsidy payments. The only way to make single family ownership of new or rehabilitated structures feasible for a modal income family under existing programs appears to depend on the use of state welfare payments in conjunction with a waiver by the state welfare agency of any claim against the occupant's equity in the property.

Cooperative housing can reach families with

the modal income of $4, 000 per year in single- two- or more-family structures. The principal reason is that HAA subsidies are available to occupants of a cooperative because HAA does not consider the cooperator's share of stock equivalent to legal title.

It is much easier to provide the modal income group with rehabilitated housing than new housing, primarily because acquisition and rehabilitation of an old house costs less than construction of a new one. Another important factor is the extension of section 221(h) to two-family as well as single-family houses. This section provides 3% interest rate mortgages for rehabilitation of one- and two-family houses. In addition, section 312 loans for rehabilitation, also carrying 3 percent interest rates, are substantial aids.

The feasibility of many of the proposals depends upon real estate taxes equal to 15% of gross rentals (or the equivalent thereof). The more common practice is to assess real estate taxes at one-third the purchase price, so that a tax rate of $130 per thousand of assessed value produces a yearly tax of $650 on a $15, 000 home. If our suggestion were

followed, the estimated gross rental for such a home would be $190 per month; and therefore 15% of gross rentals produces a yearly real estate tax of approximately $310 per year. This is a substantial difference; it is roughly a difference of $30 in monthly housing costs, which is equivalent to a change of $1, 800 in yearly gross income under the 20% assumption, and $1, 360 in yearly gross income under the 25% assumption.

The major problems in designing a satisfactory program revolve around: the size of minimum downpayments; the restriction of HAA subsidies to renters; the need to increase the HAA subsidy maximums; the restriction of key programs (221(h)) to one- or two-family houses; the low maximum mortgage amounts on FHA insurance programs; and the interest rates.

D. Program Recommendations

The best combinations of finance tools and subsidies for one- two- and three-family houses and cooperatives will be outlined. The criteria for selection of the "best" programs are the feasibility of use by families in the modal income group of $4, 000 per year and the legal limits of the program.

TABLE 4

		Costs	Program	Cost Analysis Chart Number	Net Monthly Housing Costs to Owner	Annual Gross Income 20%	Annual Gross Income 25%	HAA Monthly Subsidy Contribution Section 23	Monthly Subsidy Needed To Reach Modal Income Family	Monthly Economic Rent of The Rental Units	Down payment
New	One	20000	Conventional 203(b)	4	224	13500	10800		157		950
			BMIR-BMIR	10	156	9400	7500		89		2000
	Two	30000	Conventional 203(b)-HAA	15	147	8800	7100	146 for one unit	146 plus 80 = 226	126/ unit	2950
	Three	36800	Conventional 203(b)-HAA	23	67	4000	3300	267 for two units		214/ unit	4310
Rehab	One	9000	Conventional 203(b)	1	134	8800	7000		67		270
		12000	BMIR-BMIR	8	112	6700	5400		45		1200
		12000	221(h) BMIR		117	7000	5650		50		200
	Two	18000	Conventional 221(d)(2)-HAA	17	67	4000	3300	130 for one unit		200/ unit	540
		18000	312		67	4000	3300	100 for one unit		170/ unit	540
		24000	221(h)		67	4000	3300	106 for one unit		176/ unit	200 ?
	Three	27000	Conventional 221(d)(2)-HAA	25	67	4000	3300	189 for two units		165/ unit	810
		27000	312		67	4000	3300	147 for two units		145/ unit	2450

Source: Computed

These programs are summarized in Table 4.

(a) Single-family houses. This type of structure is most desirable for privacy and for the relatively few management problems. No program other than welfare, however, makes it possible to supply either new or rehabilitated single family housing for ownership to families with a $4,000 yearly gross income under either the 20% or the 25% assumption. the principal reason is that all subsidies except welfare are either unavailable to owners (HAA, rent supplements) or inadequate (section 235). If welfare officials would be willing to contribute $157 per month toward housing costs of the owner, a $4,000 income family, under the 20% assumption, could afford a $20,000 new single-family house under a section 203(b) insured mortgage. This is a rather large sum and welfare officials may feel they can do better with renters or with owners of two- or three-family houses. They would be correct in their analysis. The welfare payment toward housing costs need only be $70 - $90 per month on a rehabilitated single family house selling for $9000 to $10,000. This

is not such a large sum.

The best single-family program is one recently enacted by the Housing and Urban Development Act of 1968; it provides BMIR (3% interest rate) mortgages for one-family units in condominiums created out of housing developments that have BMIR project mortgages. In terms of BMIR projects already built, this spin-off would mean less privacy than the traditional single-family home; however, future construction under BMIR could maximize privacy by building separable or detached housing. Under the 20% assumption this BMIR program can only benefit families with annual gross incomes greater than $9, 400 on a $20, 000 new construction cost; under the 25% assumption the income would have to be $7, 500. With rehabilitation plus acquisition costs of $12, 000, the figures are $6, 700 and $5, 400, respectively.

The below market interest rate of 3% is also available under section 221(h) rehabilitation of single-family units. This gives the program the flexibility to rehabilitate detached single-family houses. Under the 20% assumption

it can reach families having an annual gross income of $7000.

(b) Two-family houses. This type of housing provides the owner-occupant with less privacy and makes him a landlord. Perhaps innovative design can maximize privacy in new construction, although rehabilitation of old two-family houses would not provide more privacy. The two-family house, however, can reach a lower income family because of the availability of HAA subsidy for the unit rented out under an HAA leasing program,[24] administered by the Boston Housing Authority (BHA).

With an individual-homeowner-mortgage insured under section 203(b), a family with an annual gross income of $8, 800 under the 20% assumption or $7, 000 under the 25% assumption can afford a newly constructed $30, 000 two-family house.

A family with annual gross income of $4, 000, however, under either assumption can afford to purchase a rehabilitated two-family house for $18, 000. Here it is recommended that the owner obtain a mortgage insured under

section 221(h), as amended in 1968. The down-payment may be as low as $200.[25] Finally, HAA subsidy payment on the unit to be leased under section 23 is only $106 per month. Compare this to the $130 per month HAA subsidy required under the section 221(d)(2) program recommended as an alternative below. The section 221(h) program is likely to involve more red tape than section 221(d)(2) because 221(h) involves cost certification while 221(d)(2) only requires an appraisal of the property.

An alternative recommendation for rehabilitated two-family houses is that the owner obtain a mortgage insured under section 221(d)(2). Section 221(d)(2) is preferred over section 203(b) because for all mortgage amounts in excess of $15000 section 221(d)(2) allows a lower downpayment than section 203(b). Note here that the home purchaser can only take advantage of these lower downpayment requirements if he is able to locate a mortgagee who is willing to give him a mortgage on these terms. Section 221(d)(2) was not recommended for new two-family houses because the construction

costs exceed the maximum mortgage amount insurable under section 221(d)(2).

See Table 4 for the amount of HAA subsidy needed for provision of two-family houses. Note that in many cases the required amounts exceed the present HAA maximum annual contribution of $96 per month per three-bedroom unit. It is clear that this amount must be raised to make several of this report's recommendations operative.

Also, see below the section dealing with section 312 loans for rehabilitation.

(c) Three-family houses. The privacy factor of the three-family house is analogous to that of the two-family house. The income position, however, is much better. A family with an annual gross income of $4,000 under either assumption can afford either a new house costing $36,800 or a rehabilitated one priced at $27,000. Note that it is probably impossible to construct a new three-family house for $36,800. But $36,800 is the maximum sale price possible under the maximum mortgage amounts of the FHA programs. For new construction section

203(b) mortgage insurance is recommended because 221(d)(2) maximum mortgage amounts are too low, while for rehabilitation, section 221(d)(2) mortgage insurance is recommended because of the beneficial downpayment terms. Again, refer to the limited amounts of HAA subsidies. Except for the $27,000 rehabilitated structure the HAA subsidy maximum must be raised. Also, see the discussion of section 312 loans, below.

(d) Six-family houses. There are a small number of six-family houses in the Model Cities Area that are suitable for ownership. It is recommended that section 220 mortgage insurance be sought where it is available because it can be used on one- to eleven-family houses. However, section 220 is limited to Urban Renewal Areas. Section 203(b) and 221(d)(2) are restricted to one- to four-family houses.

(e) Condominiums. In general condominiums incur the same financial difficulties as single-family houses. The one possibility of remedying the problem is to have "multi-family" condominiums. That is, each condominium owner would hold

legal title to two or more dwelling units. In this way the benefits associated with three-family houses can be made available to owners of units in some recent construction, such as Marksdale. It is possible to obtain section 234 mortgage insurance for such packages, but no other section seems to allow mortgage insurance of a "multi-family" condominium.

(f) Cooperatives. Since HAA treats cooperators as renters, a cooperator can receive HAA subsidy payments. As a result a family with an annual gross income of $4, 000 can afford to be a cooperator in either new or rehabilitated housing. The housing costs of a cooperator are similar to those of a tenant during the "ripening" period.[26] Note that section 221(d)(3) BMIR mortgages are available for cooperative financing. Although cooperatives are economically feasible and can give the occupants good control over the future occupants of units in the cooperative, there are several drawbacks. In general cooperators have less control over the property than owners, but the cooperative is a better form of rental. The most important drawback

for low income families is that a failure by any one or more cooperators to make his monthly contribution to the cooperative must be borne by all the other cooperators. What is equivalent to a default can rapidly bring the cooperative into actual default on its mortgage because of the small income margin that low income families have to meet such crises. Another debit may be the possible difficulty in transferring one's share in the cooperative; the problem arises because the cooperator holds a share of stock in the cooperative and has no title to real property. One cooperator cannot aid a sale of his interest by mortgaging the realty unless the cooperative as a whole consents to a lien on the real property. Another possible difficulty arises from the possible interest of the cooperative in restricting the equity accumulation of the cooperators.

(g) Sections 312[27] and 115[28] - Rehabilitation Assistance.

In order to make section 312 a feasible program it is necessary to structure the package so that the cost of acquisition can be

included in the section 312 loan. This can be done by having a corporation purchase the unrehabilitated properties, then sell them without rehabilitation to the individual owner, and draft the mortgage, held by the corporation, so that the owner qualifies for refinancing under section 312. Then the corporation, preferably an affiliate corporation, could do the rehabilitation work as a contractor. Using section 312 and section 23 leasing on tenant-occupied units, a family with gross annual income of $4,000 can afford either a rehabilitated two- or three-family house. One major problem with section 312 is the high downpayment required: on a $27,000 rehabilitated three-family house the required downpayment is $2,400. The HAA subsidy for the two rental units in this house is only $73 per month; this could easily be raised by $30 per month. If this were done the owner could then afford a short term loan to raise the downpayment. It is not yet clear that the local public agency, the BRA, will allow borrowing of the downpayment. Another problem may arise; if the owner must make payments on the

section 312 loan before the completion of the rehabilitation and the beginning of HAA assistance, he may be hard pressed for funds during a temporary period. In addition, this program requires a corporation to make the initial purchases and to aid the owners in processing their section 312 loans—such corporations may be hard to find. A massive program of purchase by such a corporation and resale to individual owners for the purpose of obtaining refinancing under section 312 may be viewed as a device to evade the purpose of section 312 refinancing. Although the Urban Renewal Administration has issued a letter dealing with volume rehabilitation, there is no clear indication of the feasibility of the manipulation suggested here. In some cases section 115 grants may be helpful.

(h) Demonstration grants. Under section 207 of the Housing Act of 1961,[29] the Secretary of HUD may make grants, on such terms and conditions as he shall prescribe, for the purposes of developing and demonstrating new or improved means of providing housing for low income persons. It is recommended that this provision

be utilized. Some of the difficulties discussed in describing the recommendations of this report and some of the legislative recommendations can easily form the foundation for seeking such a grant or grants. The Office of Economic Opportunity may be another possible source of funding part or all of a demonstration program. Model Cities money may be used for such demonstrations also.

(i) <u>Section 208 of the Housing and Urban Development Act of 1968</u>. This section gives the local housing authority broad powers to encourage homeownership. It is recommended that efforts be made to have the Boston Housing Authority employ this new provision. There is one problem: the breadth of the provision will probably prevent action until HAA in Washington establishes guidelines.

(j) <u>Conversion of existing public housing to owner-occupied dwellings</u>. There appears to be two major problems: (1) the location of funds to pay off the unpaid debt; (2) the sale of the few semidetached housing units in Boston ("separable" under the 1968 Housing Act) seems to be

restricted by an administrative view that only post-1965 construction can be so sold.

BHA, however, is anxious to receive a concrete proposal in this area. In fact it is thinking of seeking an Office of Economic Opportunity grant to experiment with a limited transfer of control to the tenants in one or two of its projects. This could develop into a transfer of ownership. Note that if the transfer is made to a cooperative, there should be no problem of financing the existing debt provided BHA agrees to enter a section's 23 or 10(c) leasing arrangement with the cooperative. Efforts should be made to further pursue this matter.

E. Existing programs that require future action.

(a) BMIR Funds. In subsection D above several section 221(d)(3) BMIR proposals were discussed. This program functions by means of the Government National Mortgage Association's (GNMA) purchase of FHA insured loans upon completion of the construction work. Consequently substantial appropriations are needed for its operations. At present there is little or no

money in the BMIR programs. Any action involving such programs must await the appropriation of funds by Congress.

(b) Turnkey. This is a device designed to allow local housing authorities to involve private business in the provision of standard housing to low income families. There are three variations: (1) Turnkey I allows a developer to present to the BHA his proposal to build housing for low income people. If the BHA likes the developer's proposal, the developer and BHA enter into an agreement under which the developer agrees to construct the housing and BHA agrees to purchase it upon completion. (2) Turnkey II is identical except that the developer and BHA agree that the former is to manage the housing, or a private firm and BHA agree that the private firm will manage the housing. (3) Turnkey III is identical to Turnkey I except the tenants leases all contain options to purchase, and the housing is constructed with an eye towards homeownership. Turnkey III could be a useful tool in a homeownership program. However it is not now possible to use

Turnkey III in Massachusetts because Massachusetts has a statute requiring that construction contracts such as BHA-built housing be contracted by calling for and receiving bids. Turnkey does not involve bids. The subcontractors which would work on BHA-built housing have objected to privately-built housing which is sold to the BHA. This group has managed to convince various state officials that Turnkey does comply with the Massachusetts bidding statute. BHA has a Turnkey developer with foundations already in the ground; BHA had worked out a clause whereby the HAA, at the federal level, agreed to take the project over if the Massachusetts bidding statute prevented BHA from purchasing the completed development. But this clause has not yet solved the problem because the Deputy Commissioner of Housing in the State Department of Commerce refuses to sign the contract because he contends that even this clause violates the Massachusetts bidding statute. BHA is prepared to carry this dispute to court.

In one or two years Turnkey may be available in Massachusetts.

FOOTNOTES

1. 12 U.S.C.A. sec. 1709(b).

2. To qualify for these loan-to-value ratios the mortgagor must be an occupant, and the application for insurance must be approved either prior to the beginning of construction or more than one year after the completion of the dwelling.

3. It is possible for a builder or developer to obtain, prior to the beginning of construction, a commitment by FHA to insure a house upon completion; the eventual buyer need not be known. There are basically four situations: (1) The potential owner-occupant obtains an FHA commitment to insure his individual mortgage under section 203(b). In such a case there is no ripening period. (2) The builder or developer seeks an FHA commitment to insure under section 203(b) prior to the beginning of construction. This commitment expires in 6 months but can be renewed for up to a year or two for a minimal fee. During this time the builder (developer) would have a conventional mortgage. The housing can be occupied during this period. (3) The builder or developer can seek an FHA commitment after the beginning of construction. If he does this more than one year after the completion of construction, he is in the same position as in number 2; otherwise he will be subject to a lower loan-to-value ratio. (4) A non-occupant mortgagor can seek an FHA commitment prior to the beginning of construction. But unless he makes certain certifications (see program Number 5 on Cost Analysis Charts, Exhibit G) he will receive a low loan-to-value ratio.

4. 12 U.S.C.A. sec. 1715 1 (d)(2).

5. The maximum mortgage amounts for high cost areas are:

	203(b)	221(d)(2)
one family	30000	15000
two family	32500	25000
three family	32500	32000
four family	37500	38000

6. 12 U.S.C.A. sec. 1715 k.

7. 12 U.S.C.A. sec. 1715 1 (d)(3).

8. 12 U.S.C.A. sec. 1715 1 (h); 80 Stat. 1268 (1966).

9. The downpayment is $200 for single family rehabilitation under section 221(h).

10. Section 105 of the Housing and Urban Development Act of 1968.

11. Section 101 of the Housing and Urban Development Act of 1968.

12. 42 U.S.C.A. sec. 1452 b.

13. 42 U.S.C.A. sec. 1410(c) (Supp. 1967).

14. 42 U.S.C.A. sec. 1421 b (Supp. 1967).

15. Under section 10(c) the Boston Housing Authority pays real estate taxes equal to 10% of shelter rents (the amount that the tenant pays BHA exclusive of utilities). The city-wide average for Boston is $5 per dwelling unit per month.

16. 42 U.S.C.A. sec. 1701 s (Supp. 1967).

17. 42 U.S.C.A. sec. 1466 (Supp. 1967).

18. See Appendix B for a discussion of the activities of Fair Housing Inc.

19. 42 U.S.C.A. sec. 1421b (Supp. 1967).

20. A condominium is a form of ownership under which the occupant holds the legal title to his dwelling unit plus a right to participate in the management of any common areas or facilities that may exist. See Appendix for a discussion of condominiums and cooperatives.

21. There might be a slight reduction for expenses attributable to common areas, (if there are any), because of economies of scale.

22. Section 234 of the National Housing Act allows one condominium owner to receive mortgage insurance on up to four dwelling units in the structure.

23. See Appendix K for a detailed analysis of these costs. The operating costs for new housing were $67 per month

per family unit during the ripening period. This was reduced to $64 per month per family unit during the permanent period. These figures were $57 per month per family unit and $54 per month per family unit, respectively, for rehabilitated housing. These costs were assumed to vary linearly with the number of family units. The question of management fees during ripening are treated separately.

24. On two and three-family houses section 10(c) leasing is not included in the recommendations because of its long term nature, the necessity for a tax exemption and the attendant political difficulties, the individual nature of ownership, and the probable homeowner preference for greater choice of tenants.

25. The $200 figure comes from the requirement for single family rehabilitation under section 221(h). The two family regulations are not yet available.

26. See Exhibit 6, Cost Analysis Charts.

27. 42 U.S.C.A. sec. 1452 b (Supp. 1967).

28. 42 U.S.C.A. sec. 1466 (Supp. 1967).

29. 42 U.S.C.A. sec. 1436. See also 42 U.S.C.A. sec. 1452a in the area of urban renewal.

VII. FAILURE OF DELIVERY SYSTEM

We have established that there is a longstanding and hitherto frustrated desire for home ownership in the Model Cities Area - a desire recently strengthened by the concern of poor people and black people for control of their own community. Why, then, has no public or private concern or ambitious entrepreneur undertaken to provide such ownership to the people of the Model Cities Area? And will this report spur any groups into taking advantage of the programs recommended in Chapter VI? To answer these questions we should consider the production of houses as a system regulated by a number of rules and regulations and containing a number of persons, institutions and agencies who interact with those rules and regulations and with themselves to determine whether or not the housing system works in a given area. The extent to which it does or does not function depends upon the market in which it must operate.

What are the peculiar requirements of the ownership housing market in the Model Cities Area that have prevented the housing system from working effectively there? The majority of potential owners are

people with incomes less than $5,000, with little or no savings, frequently with bad credit history, and with no background of home ownership in their immediate family. Their total monthly housing costs should not exceed $70 or $80. The downpayment should not exceed $200, closing costs included. They may need considerable training in the skills, duties and requirements of home-owners. And if they are not to lose their hard-built equity at some point in the future (through unemployment, for instance) they will require a system of default protection.

Ownership by local residents does not provide the amount of profit normally sought by large realty development corporations who build, own and manage rental projects. Furthermore, the physical nature of the Model Cities Area necessitates the acquisition of numbers of isolated three-family houses and scattered sites, and large developers are not used to working with small, discrete locations.

The following specific gaps account for the system's inability to deliver ownership housing.

Federal, state and city regulations are not designed for low income homeownership. The reasons: 1) Many of the FHA home ownership programs require

high downpayments, particularly for the rehabilitated multi-family structure predominant in the Model Cities Area.

2) Various FHA and HAA housing cost supplement programs apply only to renters and not to owners.

3) Many of the FHA programs with below market interest rates apply only to renters.

Federal regulations are wholly inadequate to deal with the special conditions of the urban Northeast. A recent and striking example is the design of the section 235 home ownership program in the 1968 housing legislation. Because it omits maintenance, utilities and heating cost from its formula, it would require a low to moderate income family residing in the Northeast to contribute between 30 and 45% of its income to total housing costs.

Other weaknesses in current legislation are:

1) Maximum mortgage amounts for many of the ownership programs are too low to cover the costs of construction or acquisition <u>and</u> rehabilitation in the Model Cities Area.

2) Some of the ownership programs apply only to one- and two-family houses; they overlook the predominance of three-family structures in the Model Cities Area.

The existing legislation, then, makes it virtually impossible for developers to produce homes with housing costs or downpayments low enough to allow residents of the Model Cities Area to purchase them, even under federal programs.

What attracts a private developer to a given project? Generally, he is attracted by the prospect of earning a substantial return on his investment of time, effort, and money. The form of investment and type of return expected depends largely upon the particular role the developer chooses to take or which the project in question requires him to take. He can function as: the promoter, who prepares, packages, and sells a concept and plans for a proposed development; the land or buildings in anticipation of capital appreciation; the builder, who develops the land and constructs the housing; the supplier, who provides equipment and material to builders and fuel and service to owners; the investor, who provides debt or equity financing; the manager, who manages the completed project; or the owner, who has equity control of the completed project.

Depending upon which role(s) the developer chooses, several returns may be available to him; they may be categorized as general or special. Cash flow

(the residue after operating expenses, real estate taxes and debt service), tax losses (principally depreciation deductions available to offset other income), amortization, and capital appreciation are all general returns. Some special returns are: speculative profits; contractor's, architect's, lawyer's marketing and packaging fees; profits from the provision of fuel or service to material and equipment installed; interest on mortgage loans; full utilization of fixed resources; and intangible benefits such as publicity and prestige from performing a social service.

There are only a few developers who are fully integrated - that is, whose operations include all phases of the development process. A fully integrated developer might purchase land years ahead of the time he actually plans to develop it. If he guesses right he will benefit from an increase in the value of the land while he is waiting. Or, he may be able to inflate the value of the land for mortgage purposes. He may also have his own construction firm, thereby retaining the fees normally payable to outside contractors. He would probably retain ownership of the property (in the case of income property) and manage it himself.

On the other hand, there are more developers

who are not fully integrated, such as a speculative builder who builds a small apartment building, rents it fully and then sells it, or one who builds and sells ten single-family homes on scattered sites during the course of a year.

The prospects for earning acceptable returns in the Model Cities Area are, in a word, poor. The primary reason appears to be the high risk associated with real estate development in the area. The risk is primarily a function of lack of effective demand, that is, buyers and renters with money. There is also a lack of mortgage funds without FHA insurance. In almost all cases where a government agency does not in some way change the demand situation, the market is so small that the risk of renting or selling the completed housing units is prohibitive. Therefore, the only way most developers could reduce risk would be to participate in a government-sponsored program where low interest rates, urban renewal writedowns, and government enthusiasm for a particular program provide a substitute for the lack of effective demand.

Those developers who have mastered the intricacies of working with government agencies have usually managed to earn an acceptable return. Such a

developer is typically large, integrated, well financed and a specialist in government-sponsored programs. But he does not build housing for home ownership unless it is a cooperative. The majority of real estate developers, who are small, often play only one or two of the roles described earlier, are marginally financed and do not want a set of government-sponsored ulcers, are eliminated.

Given the high risks of building in the ghetto, even governmental intervention does not provide sufficient returns to the developer. The returns are not worth the effort, especially when there are better alternatives available. The supply-and-demand everywhere else is so favorable to developers that they can make higher returns with less trouble and lower risk outside the Model Cities Area.

The large, fully integrated developer specializing in government-aided projects, like the Development Corporation of America, tends to be almost exclusively involved in the production of rental housing. A home ownership program could attract him if it were specially geared to his talents and offered returns comparable to or better than those he is earning now. For example, a large project of cooperatives on one site would

require the same kinds of design and construction talents as a 221(d)(3) BMIR rental project of equal size. Similarly, some of the leasing programs proposed in this report would require management talents much like those utilized in low-cost rental projects elsewhere. Many of the returns would be the same; for instance, tax losses generated during the ripening period of sufficient length (5 to 10 years) would be available to investors. In one case the units would eventually be sold, while in the other, they would be held and rented; now, if the developer could look forward to a reasonable profit on the sale of the units, there is no reason to believe he would be unwilling to participate in such a program.

A program with different skill requirements could attract this developer, if the prospective returns were higher than normal. Development Corporation of America's decision to undertake scattered site development (the "Infill" program) presumably was made in anticipation of higher returns than were being yielded by other rental projects.

Although the large developer currently is having a major impact on the Model Cities Area, the greatest resource for development is the medium-to-small

developer. These developers operate in low volumes, but they can produce more in total through their sheer number. Because these developers tend to take only the builder's role, the best way to utilize their capabilities in a home ownership program probably would be to have them develop small cooperative or condominium projects, scattered-site infill housing, and rehabilitation of existing one- to four-family houses. This developer typically would not have the capability or the desire to handle the complexities of a leasing - or ripening - situation; consequently, management would have to be assumed by a specialist who would work for a fee or offer the developer some sort of fixed return on the property. Conceivably, either ripening could be eliminated, or some other concern could take title to the property.

Developers who are also residents of the Area might be interested in a management role as well as a builder role, since they would have some advantage in terms of proximity, and familiarity with the problems of the Area.

The final group of developers who might be attracted to a home ownership program in the Model Cities Area consists of non-profit and quasi non-profit

(limited dividend) groups such as churches and charitable foundations.

These groups already are a major force in the Area and have been for some time, chiefly because they are not motivated by profits, but rather by altruism, interest in the betterment of the community. They are, therefore, not deterred by financial risks or the attractions of other investments which hold back profit-motivated developers. These developers could be a potentially useful force, because the theoretical relationship between home ownership and overall community betterment dovetails with their objectives.

On the negative side, however, they may be unable to produce a meaningful number of housing units at economical costs. Since profits are not a factor, they may not be as concerned with productivity as they should be. They are not developers by profession and thus cannot be expected to perform as economically as their experienced counterparts.

We would conclude that those non-profit groups who do have development capability should be encouraged to undertake home ownership projects. Those who do not should be encouraged to align themselves with an experienced developer: the non-profit group would

provide funds and the willingness to take the risks and the developer would provide the expertise.

Few developers are willing to enter the Model Cities ownership market. Due to the difficulties of working in the Model Cities Area (labor force, tenants, community attitudes), the attraction of other areas of real estate investments and the lack of the large profits usually found in real estate development (sale of depreciation, cash flow, amortization and appreciation), the typical large, integrated real estate developer is not particularly interested in producing ownership housing in the Model Cities Area. There has been a significant level of recent activity by such developers, but it has been limited to rental properties and coupled with special emphasis by federal agencies, as in BRP, or with urban renewal writedowns. Among profit-oriented firms, the most likely candidates for entrance into the market are locally-based small developers who may enter the market even though the profits may be marginal and whose familiarity with the Area may allow them to make profits where outside developers could not.
Small builder developers are primarily interested in making profits out of the construction or rehabilitation of property, and want to sell the completed housing as

soon as possible. A type of developer who has only recently entered the low-income housing market but whose potential may be great is the supplier developer (Eastern Gas and Fuel, or U. S. Gypsum). Their substantial resources may allow them to put together a large, competent, well integrated development corporation. And since their profits derive from the use of their material and the creation of good will and publicity, they may be willing to enter the market. Of the profit-making developers, only the suppliers might be willing to undertake any of the training and related social service functions which are vital to a successful home ownership program.

On the other hand, non-profit, quasi-public and public developers should find an ownership project in the Model Cities Area highly attractive. To judge from their own goals and the standards of funding agencies, foundations or government, this is precisely the type of business they should be involved in. There is some doubt, however, as to whether these corporations could be organized quickly enough, and as to how competent they would be in actually producing housing.

In order to initiate the home ownership program, to redirect large developers and attract smaller

developers, there is need for someone to promote and coordinate. Developers should be contacted and provided with information on site availability, financing availability, data on markets, leasing programs, etc. If something like the ripening period concept is brought into use, developers should be familiarized with its application. Developers are businessmen; they tend to concentrate on the safe, sure, familiar road. They must be given reason to change, and help in doing so. Consequently, a skills bank is needed. Something like a miniature BRA in the Model Cities Area could aid developers in initiating, completing, and managing or marketing their projects. Only if such help is provided will meaningful ownership housing production be stimulated in the Model Cities Area.

Present regulations do not encourage the participation of small local developers or non-profit developers. Many of the federal programs which might be most useful in producing ownership in the Model Cities Area, like sections 312 or 221(h), are "Cost Certified Programs" with mountains of built-in red tape necessitating great manipulative skill on the part of the developer. Many small builders will not even participate in the 203(6) program, the simplest of all FHA programs.

They would rather work in other areas, where conventional financing is more readily available, than go through any existing regulatory procedure. Non-profit developers also are hard put to navigate the maze of federal regulations.

With the exception of the suppliers, there seems to be no group of developers who are both eager to come in and equipped to produce the type and volume of housing necessary in the Model Cities Area. Analysis of twelve existing home ownership projects in the Boston area and around the country support this general thesis. Of the seven direct ownership projects studied, non-profit or limited dividend corporations were involved, and although most projects achieved some success--one or two notably so--the total volume of housing produced was small. Large, integrated real estate developers participated only in cooperatives (and in one condominium project in Puerto Rico) where the profit potential was more nearly that of rental projects--and in at least one case, the participation of the developer was due only to the persuasiveness of the local redevelopment authority.

Banking finds other markets more attractive. In general, banks will participate in the Model Cities

ownership market only if FHA insurance is available. Like the developers, only the large banks will bother with FHA insured mortgages because of the bureaucratic difficulties (smaller banks do not have the personnel or the skills to handle red tape), and because other markets are more attractive. Even with FHA insurance, bankers are concerned about the number of defaults and the administrative costs required as well as the number of "slow loans" which may be in their general portfolio.

In summary, then, the rules and regulations of the existing housing system are not geared to the income of the residents, or the housing stock, of the Model Cities Area. Nor do they encourage participation of those developers who might enter the Model Cities Area under more favorable legislation. Likewise, the most efficient developers, banks and fire and hazard insurance companies, as well as other actors involved in the housing system, may find other markets more profitable and less risky.

Can the existing system be manipulated to produce the desired housing? Without attempting to change the actors in the system or the rules governing it, the consultants conducted an intensive study of how these regulations might be combined to produce the desired

wide range of owner-occupied houses. This analysis is presented in Chapter VI, above. The basic approach was to employ a system of combined subsidies for multi-family units. Various FHA or URA programs were utilized for mortgage insurance or loans on new and rehabilitated housing in combination with HAA subsidies for the rental units, under either section 23 or 10C. After making full use of all existing programs and the new 1968 legislation, the following conclusions were drawn:

1) HAA subsidies may be used indirectly to subsidize owners of multi-family houses if HAA and the local housing authority are willing to provide the subsidies at the required level.

2) Even in a three-family house it would be very difficult for a low income family to own new housing because of the high monthly cost.

3) It is much more likely that low income people may become owners of rehabilitated housing. However, under many existing programs, downpayment requirements for two- and three-family houses increase substantially and may thereby prevent the low income family from purchasing.

4) The basic system requires HAA to provide indirect

subsidies to those families holding title by increasing its subsidy to the rental units. The rental market is thereby distorted and the HAA program may be subject to certain congressional or other criticisms. In general, whenever additional funds were needed in the housing system, either for homeowners, developers or bankers, the report's program looked to HAA as the source. This is probably an unhealthy situation.

Thus, the rather complex procedures developed to lower housing costs and downpayments, investigated in Chapter VI, did result in the possibility of low income families owning rehabilitated houses but did <u>not</u> permit them to own new housing. Consequently, these procedures do not satisfy the general goal of providing a wide range of choice within the Model Cities Area for all income groups. Since they are so intricate and require working with two federal agencies rather than one, they decrease the likelihood of the participation of a large number of profit-making developers or the efficient participation of non-profits. Although the manipulated system may produce some increase in ownership housing, it most probably will not produce enough; and it certainly will not result in the desired breadth of choice.

VIII. RECOMMENDATIONS

Our recommendations can be divided into three major areas of concern: actions designed to provide consumers demanding ownership housing with the purchasing power to acquire it; actions designed to induce entry into the Model Cities housing market by the actors required to produce the ownership housing, especially the developers and lenders; and actions aimed at giving the Model Neighborhood Board or Model Cities Agency effective control over the housing produced. The first area of concern encompasses actions aimed at creating an _effective_ demand, that is, at giving the consumers the money needed to make their wishes felt in the marketplace. The second area works on the supply end of the housing market; the general aim is to maximize the number of developers and bankers working in the Model Cities Area. In order to foster the growth of small business within the area, special emphasis should be given to encouraging small local developers. In addition, the entry of nonprofit private and public developers is encouraged. In the third area of concern the assumption is that effective control depends upon control over the developers who produce the housing. However, this control must not create additional red tape that would

deter developers; in fact, it must be exercised so as to ease the difficulties in the present arrangements.

It is important to recognize that there is overlap and interrelationship between the recommendations. For example, if the minimum downpayment is lowered to $200, there may be no need to obtain a waiver of the FHA prohibition against borrowing downpayment money. But the converse is not necessarily true.

A. Creation of effective demand.

(a) Changes in federal legislation, regulations or administrative policy and procedure.

1. The program recommendations (see Table A) depend upon subsidy assistance from the Housing Assistance Administration (HAA) through the Boston Housing Authority. The required amounts exceed the maximum amounts currently payable. Therefore the level of these maximums must be increased. The present maximum amounts are based upon 1966 construction costs and bond rates. With an adjustment for the rise in both construction costs and bond rates since 1966, and with other changes in the administrative procedures for setting maximum amounts, they

should rise to roughly $130 per month per 3-bedroom unit. This change in the administration of sections 10(c) and 23 of the Housing Act of 1937 must be sought at the initiative of the Boston Housing Authority.

2. FHA has an administrative policy prohibiting both second mortgages on properties that it is insuring, and unsecured loans as means of raising downpayment money. This policy must be waived for the home ownership program in the Boston Model Cities Area. Low income families do not have enough ready cash to meet downpayments, even under the best low income home ownership programs. Downpayments jump from a low of $270 for single-family homes to $540 and ultimately up to $4310 for 3-family houses. Only families displaced by governmental action qualify for $200 downpayments under Section 221(d)(2). Section 221(h) also has a minimum downpayment of $200. The larger the structure (units per structure) the higher the required downpayment. Paradoxically, the larger the structure the more economical it is for lower income

families. A relaxation of the downpayment borrowing policy would eliminate the lump sum problem, since loans spread the downpayment over several years.

3. Until recently FHA did not look with favor upon mortgages on property in the Model Cities Area or residents of that area, largely because of the requirement that the mortgagor be an "acceptable credit risk" (section 203(b)). Although the policy has been somewhat relaxed, this credit requirement must be made more reasonable in view of the effort to upgrade the area. Efforts should be made to utilize fully section 237 of the National Housing Act as amended by the Housing and Urban Development Act of 1968, which allows FHA to insure mortgages to mortgagors who are <u>not</u> acceptable credit risks if they are "reasonably satisfactory" credit risks when provided with budget, debt management and related counseling. In addition, it allows FHA to provide funds for an adequate counseling service. The MNB or MCA should seek HUD approval of section 237 for this area and funds for counseling.

4. Under the 1968 Housing Act, section 312 loans and section 115 grants for rehabilitation can be made available to homeowners outside urban renewal areas if the City Council finds that these other areas contain a substantial number of structures in need of rehabilitation, and if they are definitely scheduled for rehabilitation. Efforts should be made to qualify the Model Cities Area for these programs.

5. At present, subsidies under sections 10(c) and 23, administered by BHA, are not available to persons holding legal title to their dwellings. This restriction should be eliminated by a change in the legislation or on an experimental basis in a demonstration program. Such a move would greatly reduce the distortion of HAA subsidy programs. For example, two tenants with $4000 annual income in a rehabilitated 3-family house receive a combined monthly subsidy of $189. BHA is forced to view this subsidy as assisting two families when, in fact, it is assisting three; it appears to provide a monthly subsidy of $90 per family, but the revised view shows it to yield $60.

The reality of the situation is that three families are benefitting and not two. All the families have incomes qualifying for public housing.

6. Section 235 of the National Housing Act, added in 1968, should be amended to include maintenance, heat and utilities in the formula used to calculate the payments to the mortgagee. The exclusion of these items is one of the primary causes of the ineffectiveness of this section in the Northeast as opposed to warmer climates. Under section 235 low income families in the Northeast would have to contribute 30 - 49% of their gross annual income toward housing costs. This should be the subject of a demonstration program and legislative changes.
7. All FHA sales housing programs should be made available for one- to four-family houses. This is especially true of sections 221(h) and 235 of the National Housing Act. This change would require legislation.
8. The maximum mortgage amounts in many of the existing FHA programs (for example, section 221(d)(2)) are set below the costs of

constructing and rehabilitating housing in central city areas. For example, the 221(d)(2) maximum mortgage amount for a 3-family house in high-cost construction areas is $32, 000 while costs for such new housing in Boston would be from $40, 000 to $55, 000. These maximum amounts must be increased to reflect higher construction costs. This would require legislation.

9. A major impediment to a large-scale ownership program for low income families is raising downpayment money. One solution would be to revise all FHA mortgage insurance programs so that the minimum downpayment would be only $200 per mortgagor. Eligibility for the $200 downpayment could depend on the income and[or savings of the family. This proposal is perhaps the most effective of any, potentially, and could be easy to administer. Still, it may be among the most difficult legislative changes to effect.

   Furthermore, local bank resistance to minimal dowpayments would have to be overcome. Banks view the size of the downpayment

as an indication of the seriousness of the mortgagor and as a deterrent to default; this view is possibly accurate for higher income families, but a low income family is <u>less</u> likely to default if its downpayment is proportionately lower.

10. Closing costs can present problems similar to those of downpayment. Under some FHA programs, like sections 221(d)(2) and 235, closing costs clearly can be included in the mortgage amount insurable by FHA, and thus, spread out over the term of the mortgage. All FHA programs should treat closing costs similarly.

11. MCA-MNB should make every effort to utilize section 208 of the Housing and Urban Development Act of 1968 which amends section 23 of the Housing Act of 1937. This section allows HAA to give broad assistance to public housing tenants who wish to purchase their units. Currently, the meaning of the section is not clear. The first step should be to clarify the language by administrative interpretations.

12. MCA - MNB should seek to establish a

program that would provide the individual purchasers with protection against default. This could be designed as an insurance program. A more thorough discussion can be found in Appendix K.

13. A demonstration program should be instituted to test the above recommendations.

(b) State and local governmental action.

1. Real estate tax levels play a crucial role in the success of the home ownership program. To insure that success new housing and rehabilitated housing must be assessed at values which produce a real estate tax approximately equivalent to 15% of gross rentals or imputed gross rentals.

   In addition, all unrehabilitated owner-occupied houses should be reassessed to reduce the discrepancy between the Model Cities Area and the rest of the city. This should be done on a city-wide basis; some other areas will have increased assessments.

2. Another way of dealing with the real estate tax problem is to work out a moratorium or abatement plan under which low income

homeowners would be exempted from local taxes for a fixed period of years. Such a plan would be analogous to incentives that now exist in some parts of the country for new industry and for expansion of industry.

3. The Model Cities Area should be qualified for a neighborhood development program. As a result it would gain powers of eminent domain and land writedown. Eminent domain would permit rapid land and and building assembly for potential developers. Without such pre-assembly by a public authority many private developers will not participate in extensive rehabilitation or scattered site programs. The writedown powers would bring the cost of the housing closer to the purchasing power of the consumer.

4. The welfare law should be made more flexible, especially with regard to income limits on eligibility. This may also require federal action.

(c) Other actions.

1. The MCA - MNB should seek to create a fund to assist low income home purchasers by

making loans and grants to cover downpayments. Contributions to the downpayment fund should be sought from all of themajor money pools in the Boston area. Initial funds may come from MCA. Preliminary investigations indicate that a 3:1 or 4:1 ratio of loans to security deposits would be possible where the borrowers were legally committed to repay the funds. Some groups have turned to direct grants; Fair Housing Inc., is a prime example in Boston. In addition, HAA has provided cash assistance for low income families who purchase cooperative housing shares. (See Appendix B, Studies of Fair Housing Inc. and St. Josephs.)

2. MCA - MNB should review the usefulness of existing credit unions and establish new ones that would provide loans to cover downpayments. This recommendation and the preceding one require that FHA waive its prohibition on borrowing downpayments.

3. Alternatively, block deposits could be used to issue 100% mortgages to owners. The Foundation for Housing Innovations (See case study

in Appendix B) utilizes this system effectively. By use of blocked deposits at Federal Savings and Loan Banks, the purchaser is able to acquire a 100% conventional mortgage. MCA programs will operate under FHA programs; therefore a waiver on borrowing of downpayment is required. The blocked deposit plus FHA insurance may be a sufficient guarantee to a Federal Saving and Loan Bank to issue a full mortgage amount. The advantage of the block deposit over short-term loans is that it incorporates the downpayment into the mortgage and, therefore, extends the term to 30 - 40 years as opposed to 5 or 10 years under a short-term loan to cover downpayment.

At present state regulations prohibit (with the exception of the Federal Savings and Loan banks) the mortgage departments of banks from advancing 100% mortgages regardless of the collateral provided. The MCA - MNB should petition the State Banking Commission for a change.

4. Tenant and owner cooperatives for purchasing fuel, maintenance equipment, etc. should be

investigated and established wherever economically sound and feasible.

B. Actor Involvement

(a) Changes at federal level.

1. One or more local offices of FHA should be opened in the Model Cities Area. Most developers, especially small ones, want to transfer their completed product to its final destination as soon as possible. Local FHA offices would assist smooth processing of applications and speedy transfer of ownership. (One is presently open on Warren Street in Roxbury.) The offices should be staffed by area residents to maximize their responsiveness to community needs. The success of area staffing may depend on the successful organization of a training program linked to civil service.

2. The procedures for obtaining FHA home mortgage and other insurance should be simplified. Section 203(b) forms are the maximum that should be required. Moreover, cost certification for one- to four-family houses should be eliminated, especially under section 221(h).

Section 312 loan processing could also be greatly simplified; this program is administered by the URA: The reduction of red tape is especially important for enticing small developers to enter the area and for helping local and non-profit developers to grow in the Area.

3. Section 10(c) leasing has many more steps involved in its processing than section 23. The latter is handled entirely by the Boston Housing Authority while section 10(c) applications must be passed upon by the Regional Offices of the Housing Assistance Administration. Section 10(c) has one significant advantage over section 23: the former is available only where the local governmental body has agreed to reduce the real estate taxes to a small figure (ten percent of shelter rent - roughly $5 per month per dwelling unit in Boston). To make this benefit more accessible, section 10(c) should have processing similar to that now in effect under section 23.

(b) MCA - MNB activities to aid developers.

1. It is very important that a close working

relationship be developed with, and among, the board of appeal, the building department, the tax assessor's office, the public works department and other relevant agencies. Conversations and negotiations along this line should begin at once.

2. A skills bank should be organized to contact developers and provide them with information on site availability, financing arrangements, and market data. It would assist them in making applications for various assistance programs, and should instruct local developers in the techniques of real estate development.

3. MCA - MNB could acquire properties for rehabilitation and scattered sites for new construction for eventual transfer to interested developers. The power of eminent domain would be useful here. This would alleviate one of the major deterrents to developer participation in the Model Cities Area.

4. Home ownership training or counseling should be provided to potential homeowners. The goal is to produce a competent corps of potential homeowners to facilitate developer

turnover with a minimum of risks to lenders and insurers from default and/or poorly maintained property. Such counseling could be given during the ripening period (a period of dwelling occupancy prior to acquiring title). Or, a two- to three-month course could be established, successful completion of which is a prerequisite for Model Cities assistance. The latter approach might make the ripening period unnecessary.

5. A development fund should be established to provide non-profit developers and local profit-oriented developers with seed money. Such transfusion is necessary in a depressed area; money must be pumped into the area before it can achieve self-sustained growth.

6. A detailed market analysis should be conducted.

(c) MCA - MNB activities as developers.

1. Since developers are reluctant to take on long-term property management duties in the Model Cities Area, it is very important to establish a corporation that will perform these functions during ripening. Developers will not take on this task where the period is only one or two

years, which is the approximate duration of ripening. In fact, it may be necessary for some entity, other than the developer, to purchase the legal title during ripening. This is especially the case for small builder-type developers who are not at all equipped to hold and manage real estate.

2. In order to demonstrate the feasibility of developer activity in the area, MCA - MNB may have to undertake development, may have to build homes and do it successfully before developers will enter in sufficient numbers.

3. In addition, Model Cities may have to devise a scheme protecting all parties against an unreasonably high mortgage default rate.

(d) Actions to encourage lender participation.

1. Any simplifications in processing recommended elsewhere are equally applicable here.

2. The lenders need to earn a return competitive with that offered by other potential investments. If their money is going to be loaned for only one to two years, a service charge of 2% makes the FHA interest rate of 6 3/4% competitive. The prime example of this is

section 221(d)(3) BMIR, which is considered an excellent investment by bankers; one banker reported earning a return of 12% on such a loan that was outstanding for less than one year. The combination of 2% service charges with government purchase of the loan at the completion of construction is a potent one. However, the 1968 legislation is designed to alter this package; section 235 and 236 provide for payments to the mortgagee (the lender) instead of government purchase of the loan. Since this spreads the 2% service charge over 40 years, the service charge is no longer a sufficient incentive to lenders. Perhaps an interest escalation clause in the loan would help to remedy this problem. Giving points on the mortgage faces the same problem as the service charge; it is spread over 40 years and as a result has its effect dampened.

3. Insurance companies are unable to make the initial loans to homeowners. However, they can and may be willing to purchase such loans (mortgages) from other lending institutions in packages of $200,000 or more. Efforts should

be made to obtain commitments by insurance companies and pension funds to make such purchases. In effect, the arrangement would be a locally run and financed secondary mortgage market.

4. Banks can be encouraged to lend more of their funds in the Model Cities Area if government, large profit, and non-profit institutions transfer their deposits to participating banks.

5. Efforts should be made to change federal and state regulations restricting the lending institutions' efforts in the Model Cities Area. For example, regulatory agencies watch the bank's list of "slow loans," loans which are in default more than a fixed number of months. A bank's ability to loan is restricted if the number of "slow-loans" is excessive. In the Model Cities Area, there is likely to be a higher default rate. Therefore this restriction impinges more severely on banking activities in that area.

C. Control over housing by the MCA - MNB.

(a) MCA - MNB can provide incentives, encouragement and general support of private developers

in the area. This will assist in producing housing but may not lead to control over the tenure, type, size, income group served, or other factors.

(b) Control over the necessary federal, state and local programs, subsidies, and administrative decisions would provide considerable control over the Area's housing. The key agencies would be BHA, BRA, City of Boston, Board of Zoning Appeals, FHA, and the tax assessor's office.

(c) MCA - MNB could seek to achieve control by entering the marketplace as a developer. This would require competition with other developers. Since the goal is to control other developers, this means may be too indirect to achieve success.

Certain of the above recommendations may substantially alter the attractiveness of the market in the Model Cities Area. For example: a successful comprehensive social service program for potential homeowners would, except for the problem of income, make residents of the Model Cities Area as competent as average homeowners whom bankers and developers now deal with in middle class suburbs. This could lead to increased developer-banker willingness to invest in the Area. Another way to improve the market in the Model Cities

Area would be to raise the income of the residents. We have not dealt with this problem here, but it is clear that the Model Cities effort will focus intensively on this problem and that income rise in time may significantly change the way in which developers and bankers view the Area. If the long-term Model Cities objective of upgrading the area is in fact accomplished beginning in Years 2, 3 and 4, the difficulties of participation described above would be lessened.

It is also possible that a program of wide-scale clearance in the Area would increase the attractiveness of the Model Cities market, eliminating the need to deal with many individual triple deckers for rehabilitation and giving the large integrated developers the sizeable sites they are used to building upon. The consultants do not recommend this approach because of the problems of relocation and community destruction which are involved.

In general the above recommendations are to be accomplished in three ways:

1. Through a federally funded demonstration program to be run in two or more subareas of the Model Cities Area.
2. Through legislation to be introduced at the

appropriate governmental level and to be lobbied for in the coming years.

3. Through direct administrative approach to the various agencies involved by the MCA - MNB particularly where simple changes of regulation are required rather than legislation (e.g., the requirement preventing borrowing of downpayments).

The role of MCA - MNB in making the recommendations a reality cannot be overemphasized. MCA - MNB will be responsible for initiating and carrying out the necessary negotiation, drafting and planning essential to a successful program.

A. Priorities of Action: Table 5

In connection with each recommendation the consultants have indicated whether or not the recommendation can be accomplished (a) by the direct action of the MCA-MNB Administrators, (b) by additional detailed studies by consultants and the requirements of such consultants, (c) by additional studies by the staff of the MCA-MNB and the type of staffing required. The consultants have also indicated which recommendations are likely to be accomplished quickly and which may take from two to three years to accomplish (e.g. legislative changes), as well as indicating which recommended changes are most critical in order to achieve the general objectives of the program. A cost estimate of the operations for the first year has been developed.

Major first-year activities break down into (a) the direct action of the administrative staff; (b) the letting of additional consultant contracts and the monitoring of these contracts by the planning staff of the MCA-MNB; (c) the initiation by the staff itself of additional planning activities; and (d) the increased hiring of the planning staff to bring it up to full strength for this program. Recommendations and the time necessary to

Table 5

	PROGRAM	* PRIORITY	** TIME	WHO	STAFF	DAYS PER WK	CONSULTANT TYPE	COST		ACTION OR STUDY TIME
1.	Adjust BHA Section 23 & 10c Subsidy Maximum Limits	1	1	MCA-MNB→BHA→HAA	Administrator	1				3 Months
2.	Waiver of Downpayment Borrowing Restrictions by FHA	1	1	MCA MNA→FHA	Administrator	1				3 Months
3.	Beneficial Tax Treatment for New & Rehab. Ownership Housing in Model Cities Area	1	1	MCA–MNB→Assessment Dept.	Administrator	1				3 Months
4.	Qualify Model Cities Area for 312 and 115 Programs	1	1	MCA–MNB–City Council for Designation	Administrator Planner	1 1				6 Months
5.	Apply for Section 237 Special Risk Insurance Credit Commitments	1	1	MCA MNB FHA	Planner	1				6 Months
	Apply for funds for Homeowners Counseling	1	2	Organization like Fair Housing → HUD	Administrator	1				
6.	Effect liason with Zoning Board, Board of Appeals, Building Dept., BHA, FHA, BRA, etc.	1	1	MCA–MNB→Contacts Appropriate Agency	Administrator	2				Throughout Year
7.	Manpower Training for MCA-MNB Staff Personnel involved in Housing	1	1	MCA – MNB	Manpower Specialist	1				Throughout Year
8.	Hire Full time Homeownership Coordinator	1	1	MCA–MNB	Administrator	5				Throughout Year
9.	Detailed Market Analysis of Housing	1	1	MCA – MNB Subcontract	Planner to Monitor	1	Housing	25,000		6 Months
10.	Local Community Office of BRA, FHA, BHA, Banks Similar to 306 Warren	1	1	MCA – MNB Contact Agencies	Administrator	1				
	Training Program to get local people involved as local office staff	2	1	MCA – MNB Subcontracts	Planner to monitor if MCA MNB Funds used	1	Manpower Expert	10,000		3 Months
11.	Demonstration Program	1	2	MCA – MNB Applies to HUD Subcontracts	Administrator Planner	1	Housing Expert	40,000		6 12 Months
12.	Rental Market Survey similar to Homeownership Study	1	2	MCA – MNB Subcontract	Planner to Monitor	1				

* Priority of Implementation — 1– First — 2– Second

* * Time to Implement Program — 1– Several Months — 2– Approximately 1 year — 3- Two or More Years

	PROGRAM	• PRIORITY	•• TIME	WHO	STAFF	DAYS PER WK	CONSULTANT TYPE	COST		ACTION OR STUDY TIME
13.	Homeownership Development Corporation Development Functions Management Functions	 2 1	 2 2	MCA – MNB Subcontract	Planner to Monitor	1	Major Development Company Lawyer			6 Months
14.	Homeowner Agency (Skill Bank) Technical Assistance Land Acquisition of Absentee owned units Coordinate Social Serv. Train Local Developers	1	2	MCA – MNB to develop capabilities Subcontract	Administrator & Planner to Monitor Planner Lawyer Planner Manpower	 3 1 1 1	Housing Social Services Public Administration Integrate Findings into MCA – MNB Structure	30,000		6-12 Months Throughout Year
15.	Development Fund Developer Fund Feasibility of New local Savings & Loan Bank or Savings Bank Downpayment Fund	 2 2 1	 2 3 2	MCA – MNB	Lawyer to Monitor	1	Finance Expert	10,000		Study in Progress
16.	Initiate Action to Alter Federal & State Legislation	1	3	MCA – MNB	Lawyer Lobbyist Administrator	2 1 1				3 Months I A
17.	Change Administrative Procession of Section 10c to 23 Pattern	2	1	MCA – MNB → BHA → HAA	Administrator	1				3 Months
18.	Guaranteed Secondary Mortgage Market	2	1	MCA – MNB → Insurance Co's. & Pension Funds	Administrative	1				6 Months
19.	Increase Welfare Assistance to Homeowner	2	1	MCA – MNB → Welfare	Administrator	1				3 Months
20.	Relaxation of Lending Limitations imposed on Local Banks	2	2	MCA – MNB → Federal Home Loan Bank, State Com. of Banking	Administrator Lawyer	1 1				6 Months
21.	Qualify Model Cities Area a neighborhood Development Program	1	2	MCA – MNB – BRA or [MCA – MNB granted some LPA powers]	Planner	2				12 Months
22.	Default Protection & Insurance Package	2	2	MCA – MNB Subcontract	Planner to Monitor	1	Insurance – Housing Team	10,000		6 Months
23.	Purchasing Cooperative and/or Homeowner Credit Union	2	2	MCA – MNB contacts Local Group (i.e. APAC's)	Planner	1				6 Months
24.	Evaluation of Local Property Tax policies and Effect upon Model Cities Area	2	2	MCA – MNB Subcontract	Lawyer	1	Local Tax Expert	10,000		Throughout Year
25.	Transfer of Appropriate Controls to Local level (i.e. Code enforcement, Housing Court)	2	3	MCA – MNB Subcontract	Administrator Lawyer	1 1	Public Administration Expert (local & Federal) Lawyer Team	25,000		Throughout Year
26.	Conversion of Public Housing Housing to Homeownership	2	1	MCA – MNB Subcontract	Planner	1	Housing	10,000		3 Months

accomplish each were analyzed in terms of the various types of ownership housing and income groups in order to estimate when certain kinds of housing would be available and for what income groups. From this comparison certain conclusions were drawn:

1. There are a number of short term (under six months) direct administrative actions which can be accomplished immediately - some of which have already begun - which can result in the immediate broadening of the home ownership potential for moderate and middle income families. They are: (1) to obtain an increase in the maximum subsidy payable by BHA; (2) to obtain a waiver of the FHA prohibition against borrowing downpayment funds or to raise downpayment money in some other way; and (3) to obtain beneficial tax treatment in the form of an assessment which leads to taxes equivalent to 15% of gross rentals or imputed gross rentals.

   Some other highly desirable and important changes are: (4) coordination of key governmental bodies such as BHA, FHA, Tax Assessors, Board of Zoning Appeals; (5) establishment of a skills bank as described above; (6) location, acquisition and sale of absentee-owned property and (7) planning,

designing and seeking of funds by MCA-MNB for a demonstration program utilizing the recommendations in this report.

2. Assuming the creation of the proposed demonstration program in selected subareas of the Model Cities Area, within six months to a year, a broad range of ownership choices could be provided for all income levels. Outside these areas some rehabilitated houses would be available for all income levels, but new houses would be available only for moderate and middle income residents.

3. Assuming that significant legislative changes covering the entire Model Cities Area would not occur until Year Two or Three and that the effects of stimulating and training local developers and of creating local banking institutions would take about the same time, a full-scale home ownership program for all income ranges in the Model Cities Area would not go into effect until then.

Each recommendation is assigned a priority, an estimate of time required to complete the task, and a designation as to those parties from whom and to whom action is directed. Where subcontracts are recommended, the type of consultant is specified. In all cases, staff

personnel from the MCA-MNB are indicated. When an administrator is required, his involvement with the program will require either direct action on behalf of the MCA-MNB or decisions on policy questions. When a planner is required to monitor, his tasks are to act as liaison between the consultants and the MCA-MNB and keep the appropriate MCA-MNB staff members informed on the progress of the subcontracted studies.

Close coordination between the MCA-MNB and consultants is vital. Many of the studies are interrelated. For any study where the MCA-MNB anticipates incorporating the program within its administrative structure, the consultant should be required to train staff personnel for the operations of the program. The full success of the home ownership programs will depend upon the MCA-MNB's capacity to conduct specific projects. For this reason, the administrative tasks of training and program coordination are extremely important.

In Table 5, estimates of MCA-MNB staffing and time requirements, consultants and contract fees for Year One are listed. To pursue a major home ownership program, a staff of twelve from MCA-MNB in the first year would be required.* This includes one top

* The number of personnel required was obtained by:

executive to run the home ownership program, an administrative assistant, two lower echelon administrators, three planners, one architect, two lawyers, one manpower expert (half-time) and a social service expert. Their budget, to include secretaries and supplies, would total $300, 000. Nine subcontracted studies would cost approximately $190, 000. The total administrative costs would run close to $500, 000 in the first year. Estimates for succeeding years were not attempted.

Clearly, all recommendations in this area are subject to political considerations and changes in market conditions, which we cannot foresee at this time. It should be noted that the staging is a function of the amount of funds available, the time when they become available, and the personnel on hand. We do, however, feel that the important areas of concern and the areas for immediate action have been identified and that sufficient information is present for the MCA-MNB to be able to make reasonable choices.

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(1) Totalling the number of activities required for each type of staff position.

(2) Allocating to a staff individual enough activities the sum of whose hours per week listed in Table 5 would total 40.

(3) Determining how many individuals were required per staff position to exhaust the total list of activities.

B. Availability of Housing According to Income of Family and Housing Type

Residential choice, new or rehabilitated, by Model Cities residents will depend upon four major factors: (1) the initial level of HAA 10c or 23 subsidies; (2) the waiver of FHA restrictions on the borrowing of downpayment; (3) implementation of a demonstration program in selected subareas of the Model Cities Area; and (4) legislative changes.

The HAA subsidy is vital to the program. Under the present but outdated subsidy formula, home ownership is scarce among moderate income families and almost non-existent among those of low income. Revision of the subsidy limit to reflect increasing construction costs and rising government bond rates can be done today. The higher the HAA maximum limit, the greater the opportunity for low income families to enjoy home ownership. At a maximum level of $130 per month, rehabilitated housing with two or more units comes within reach of low income families and new, three-unit housing comes within reach of moderate income families. MCA-MNB actions would attempt to convince BHA to (1) revise the HAA subsidy and (2) make a commitment of subsidy allocations to the Model Cities Area.

The second action, waiver on borrowing restrictions on downpayment, requires immediate negotiations by MCA-MNB with the regional office of FHA. The ability to borrow downpayment for two- or three-unit structures is important, since it enables low income families to afford ownership. With the institution of an appropriate downpayment fund (a short-run solution would be a deposit of MCA funds with banks to serve as security deposits on downpayment loans), and the approval of FHA for borrowing downpayment, low and moderate income families, who previously could not afford the downpayment, but could afford the annual shelter costs, would become potential homeowners.

The implementation of the first two actions will significantly expand the demand for ownership housing in the Model Cities Area within a relatively short period of time.

The demonstration program - which should contain provisions for HAA subsidies to homeowners, revised mortgage limits, a program similar to Section 235 but not subject to its shortcomings, etc. - would bring home ownership to all income classes. Deciding on demonstration provisions, writing the proposal, and submitting it would take from six months to one year.

Therefore, the benefits of the demonstration program would not affect the Model Cities Area until Year Two, at the earliest.

Legislative changes would require two to three years of intensive lobbying before statutory results occurred, and many of the changes would be implemented under the demonstration program. Thus, the benefits would be similar, and whereas the demonstration would probably apply to subareas of the Model Cities Area, legislative changes would extend benefits to all residents.

Both the demonstration program and legislative changes expand home ownership to all income levels. Because of the nature of the first two recommended actions, both the demonstration program and the legislative changes would take some time. The former will be easier to effect than the latter, and it may be a necessary prerequisite to any legislative changes.

C. Volume of Home Ownership Program: Table 6.

If our recommendations are followed, an estimated 8000 resident-owned units can be placed on the market within five years. Rehabilitation represents the bulk of housing activity, (75%) over the five-year period. Developers will be attracted first to new construction,

Tables 6 and 7 omitted

and many vacant sites in the Model Cities Area already are designated for "Infill" housing, an existing Boston program for new construction on scattered sites. Therefore, new construction should get off to a quick start. Nevertheless, major attention must be given to facilitating rehabilitation, since it represents a major housing effort.

In the first year there would be a low level of activity, because many essential services for developers have to be organized during this time. Most developers of new housing would not enter the program until management functions and land acquisition services were provided and red tape processing reduced. The provision of management functions (Home Ownership Development Corporation) and technical services (Skills Bank) would take at least one year to become operational.

In this first year, certain types of developers might enter into the program. Supplier-developers, who take their primary profits from installing their product, would be active, while other developers would enter the market only if sufficiently large and manageable projects were proposed. Such projects are possible if open land is available or if the community consents to land clearance. Some small developers would be active,

but the volume of their contribution would be small, unless a great deal of red tape were eliminated.

Lack of skilled developers and problems in rehabilitating owner-occupied units and acquiring scattered site absentee-owned property will keep the volume of rehabilitation low. In the first year studies, special attention should be paid to the problems confronting rehabilitation firms. (Analysis of the Boston Urban Rehabilitation Program would be very informative.) The skills bank, in particular, must make technical services available to developers involved in rehabilitation. Training local developers in rehabilitation skills must be pursued to increase the number of developers in the rehabilitation submarket.

The stress on rehabilitation here is crucial. Rehabilitation is the main source of decent housing; more important, it is the major means by which home ownership can become a reality for the low income family.

In the second year, housing activity will swell in volume as services become established. By the beginning of this year, planning and organization of the Skills Bank, Home Ownership Development Corporation, development fund, etc., would be completed and functioning. The demonstration program could be underway.

Key legislative and administrative changes might be in effect. During the second year, new and existing, local developers would acquire important skills and experience. The new service institutions would develop an expertise in their functions and lending institutions would be able to calculate realistically the level of risk associated with new construction, rehabilitation and default in the Model Cities Area.

By Year Three, the program should be in full swing. The rising level of activity, along with other public and private investments in the Model Cities Area would be parallelled by rising land values, which in turn will attract developers into the market. Table 6 charts the anticipated five-year development pattern.

D. Annual Cost of Home Ownership Program: Table 7

Assuming the recommendations are followed (but assuming that downpayment requirements remain the same), the total volume of mortgage activity over the five year period will be \$62.4 million (FHA plus URA). Approximately two-thirds, or \$40.3 million, will be handled by private lenders. Downpayments will total \$4.5 million over the five-year period. The HAA subsidy will increase from \$372,000 in Year One to over \$5 million in Year Five. If real incomes improve in the

Model Cities Area, the volume of HAA subsidy will probably decrease. The annual figures are presented in Table 7.

APPENDICES

* Appendix A omitted

APPENDIX B

THE BROOKLINE COOPERATIVE

The project is known as Brookline Cooperative Housing, Inc., and is located at 6 Juniper Street, Brookline, Mass. Completed in 1965 it contains 116 units as well as parking facilities, a coin - operated laundry, janitorial services and grounds maintenance services.

A. <u>Construction.</u>

The Brookline Coop was part of a large urban renewal package which included luxury units. The builder, James Scheuer, was required by the Brookline Redevelopment Authority to build a low-income 221(d)(3) BMIR coop in exchange for the right to have a free hand in building the luxury apartments.

The bank providing the construction loan was the Norfolk County Trust. The mortgage, equal in value to the FHA estimated replacement cost, was $1, 874, 000 with interest at 3 1/8%. Real estate market analysis was carried out prior to construction in accordance with urban renewal provisions.

The principal actors of the project are listed below:

Interview with Mr. Frank Hickey.

Sponsor:	Brookline Redevelopment Authority
Developer:	James Scheuer
Bank:	Norfolk County Trust
Construction:	S. and A. Allen Construction Co., Charlestown
Legal Counsel:	Krooth and Altman, 1001 15th St., N.W. Washington, D.C.
Supervisory Architects:	Isidor Richmond & Carney Goldberg Chloethiel Woodward Smith & Associates
Advisors:	FCH Company, Inc., 322 Main Street, Stamford, Conn.

B. Ripening.

The tenants of the coop are either previous residents of the urban renewal area (known as the Farm) or Brookline employees. Mr. Hickey of the Brookline Redevelopment Authority, who was interviewed for this case study, did not elaborate on how relocation was carried out except to say that it was on site. The Brookline Municipal Employees Newsletter was used to advertise the project. According to Mr. Hickey, no criteria were used to select home owners other than the requirement that they be on site relocatees, first, and Brookline employees, second.

FCH Co., acting as initial Director of the project, set up a training program to instruct tenant owners in the operation of the cooperative. Subsequently FCH phased itself out and was replaced by a local board of Directors composed of six elected residents and of one

member appointed by the Redevelopment Authority. As required by FHA, the coop is composed of family households or single people over 65. The majority of the residents are Irish and a minority are Italian.

The rents for the units (efficiency to 3 - bedroom) range from $80 to $115. A deposit of $225 required of each tenant owner will be used as downpayment during the permanent period.* The deposits were donated by the Municipal Credit Union for the employees of the City and by Mr. Scheuer for the relocatees.

The present manager of the project is Leatherby and Co., 1330 Beacon Street, Brookline, Mass., FCH having acted as manager for a short period of time. The management assessment fees amount to 27% of the rent. These fees are divided into maintenance fees (18% of rent) administrative fees (4% of rent) and funds for reserve (5%).

The ripening period is 3 years. The coop during this period operates as a rental project, no equity being built until the three years have elapsed.

C. Permanent phase.

The Brookline Coop is about to enter its permanent

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*Deposit required to cover FHA 1% working capital requirement for cooperative corporation.

phase. As of July 1968 the coop had had only 2 defaults. Since these tenant owners had not built up equity they were treated as defaulting tenants. Because the Brookline coop was incorporated under Mass. State Law 121A, real estate taxes are paid directly to the State. These fees are in part returned to the City of Brookline which does not tax the project.

SUMMARY SHEETS FOR

Project Description

1) Name of Sponsor or Developer Address — James Scheuer (developer); N.Y., N.Y. — Brookline Redevelopment Authority (sponsor)

2) Cooperative x Condominium _ Single Ownership _
New Construction x Rehabilitation _

3) Number of units total 116 Number of units completed so far 116

4) Type of structures: one-family __ two-family __ three-family __
(and how many)

How many one-bedroom ___ two-bedroom ___ three-bedroom ___
Other ___

5) Total mortgage $1, 874, 000

6) When was project begun _______ When was project completed 1965

7) Description of neighborhood: Urban Renewal Area - moderate to low income area residential & commercial area

II Construction Phase

A. Land Acquisition

1) agency acquiring land Brookline Redevelopment Authority
2) cost of land _____________
3) current availability of similar land ___________

B. Development Financing

1) construction loan $1, 874, 000 interest 3 1/8% loan to value ratio 100%
2) FHA 221(d)(3) Conventional ______
3) Bank Norfolk County Trust Type Commercial
4) source of working capital Scheuer
5) profit ________

III Ripening

1) tenant selection criteria former site residents & Brookline Municipal Employees
2) income level below $10, 000
3) monthly housing cost $80-$115 per month
4) subsidy none

5) length of ripening 3 years i. e. till equity builds up on blanket coop mortgage
6) amortization none to tenant
7) procedure in case of default: Standard procedure followed on Rental Developments (i. e. eviction). No equity to refund yet.
8) profits to manager ____________

IV Permanent

A. Financing of Ownership Transfer Blanket coop mortgage
   1) mortgage $1, 874, 000 interest 3 1/8% length 40 years
   2) FHA 221(d)(3) Conventional ___________
   3) Bank Norfolk County Trust Type Commercial
   4) Down payment $225 Closing costs _______ source Scheuer & Brookline Credit Union
   5) sweat equity none
   6) monthly housing costs $80 to $115 per month
   7) subsidy none

B. Management
   1) homeowner's property control
      Homeowner's Association Hires Management Corp.

   2) procedure on sale A cooperator can sell his membership only if the corporation agrees to purchase it or approves of an outside buyer proposed by the cooperator.

   3) procedure on default
      Standard rental eviction
      Cooperator is refunded balance of equity after coop debts are deducted

C. Social Services
   1) list services provided
      none

   2) how are such services financed
      none

V Comments
1) Procedures on sale and default are standard for cooperatives organized along Foundation For Cooperative Housing (FCH) format.

2) Developer was given rights to construct luxury buildings on nearby sites in exchange for his constructing low income cooperative.

ST: JOSEPH'S HOMES, INCORPORATED

St. Joseph's Homes, Inc. is the official name for a 221 (d)(3) BMIR cooperative developed under the direction of Father Michael Groden and two other young priests from St. Joseph's Church in Roxbury. The name is used only for official purposes since it is the conviction of these priests that parish churches must serve the entire community which surrounds them, and not just the parochial needs of its church members; thus they regard these houses as a community improvement but in no other way distinguished from the rest of the community.

A. Construction

The cooperative, which was sponsored by the parish through St. Joseph's Homes, Inc. and built by the Development Corporation of America, was initiated three years ago and will open after completion of construction sometime between November of 1968 and April of 1969. There are 138 units of from one to five-bedroom apartments scattered over one large site and four other smaller sites nearby.

The people formerly living on the project sites

Interview with Father Michael Groden

were relocated by the BRA which then cleared and drained these sites according to FHA requirements at a cost of about $250,000. The BRA sold these improved sites to St. Joseph's for $18,000. A $2.6 million dollar 221(d)(3) BMIR mortgage covers development costs.

B. "Ripening"

Initial occupants will have cooperator status as soon as they move in. This is significant in contrast to some other cooperative developments in which the initial occupants after construction are given interim leases as tenants until the cooperative corporation is formed (within two years after completion of construction).

C. Permanent phase

As is well known, there is nothing about (d)(3) programs per se, even BMIR, which guarantees a low income range final selling price for units. Some form of rent subsidy is frequently necessary. In the case of St. Joseph's homes, Father Groden was able to secure Section 10c subsidies from the Boston Housing Authority with supporting guarantee from HAA that such subsidies would be given for forty years. Furthermore, the required down payment of $170 is being given to low income tenants as a grant from the BHA.* The total

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* Down payments cover 1% of mortgage working capital required by FHA for cooperative corporation.

monthly costs per tenant (principal, interest, maintenance, etc.) will be roughly as follows:

one bedroom, $85 per month (14 one-bedroom units)

two bedrooms, $95 per month (42 two-bedroom units)

three bedrooms, $120 per month (30 of this kind)

three bedrooms, $130 per month (18 of this kind)

four bedroom $155 per month (27 four-bedroom units)

five bedroom, $165 per month (6 five-bedroom units)

The project will be managed by a DCA affiliate: Community Management, Inc.

D. Conclusions

Father Groden feels that the Church should take a more active role in this kind of community improvement; however, since there are few vacant sites remaining in the vicinity of St. Joseph's, it is unlikely that any expansion of the present project or construction of new developments will be undertaken.

SUMMARY SHEETS FOR

Project Description

1) Name of Sponsor or Developer Address — Father Michael Groden (sponsor); St. Joseph's Church; Jack Mahoney (developer); Development Corp. of America, Boston

2) Cooperative x Condominium ___ Single Ownership ___
New Construction x Rehabilitation ___

3) Number of units total 138 Number of units completed so far none

4) Type of structures: one-family ___ two-family ___ three-family ___
(and how many)

How many one-bedroom 14 two-bedroom 42 three-bedroom 48
Other 27 four-bedroom, 6 five-bedroom

5) Total cost $2, 600, 000

6) When was project begun 1965 When was project completed 1969

7) Description of neighborhood: urban renewal area

II Construction Phase

A. Land Acquisition
1) agency acquiring land BRA
2) cost of land $18, 000 plus $250, 000 BRA improvements
3) current availability of similar land few sites remain in parish

B. Development Financing
1) construction loan $2.6 million interest BMIR loan to value ratio 100%
2) FHA 221(d)(3) Conventional ____
3) Bank Shawmut Type Commercial
4) source of working capital DCA
5) profit none for St. Joseph's

III Ripening - Not completed yet
1) tenant selection criteria not determined yet
2) income level ______
3) monthly housing cost ______
4) subsidy ______
5) length of ripening max. 2 years from end of construction till coop takes effect; then 3 years till equity begins

6) amortization ________
7) procedure in case of default
straight eviction

8) profits to manager ________

IV Permanent

A. Financing of Ownership Transfer - under coop blanket mortgage
1) mortgage length ________ interest ________
2) FHA ________ Conventional ________
3) Bank ________ Type ________
4) Down payment $170 Closing costs ________ source Grant from BHA
5) sweat equity none
6) monthly housing costs $85 to $165
7) subsidy BHA mid section 10c with HAA guarantee for 40 years

B. Management
1) homeowner's property control
through coop

2) procedure on sale
no sale unless coop buys shares or gives approval on sale to outsider

3) procedure on default
Eviction and cooperator is refunded difference between equity and his indebtedness to coop

C. Social Services
1) list services provided
not determined yet

2) how are such services financed
not determined yet

ACADEMY HOMES, INC.

Academy Homes, Inc. is a 316 unit FHA 221(d)(3) cooperative project in Roxbury, Mass., developed by the Development Corporation of America (DCA), a Boston firm with extensive experience (1400 units) in 221(d)(3) housing. Both the project's sponsor, Academy Cooperative Homes, Inc., and the developer DCA are profit motivated; and though the project has been fully rented for 8 months, the cooperative itself has not yet taken effect.

A. Construction

The Boston Redevelopment Authority (BRA) relocated the people who were formerly living on the cooperative site, assembled and cleared the land, and sold it to DCA. An 18-month construction loan was obtained from the Provident Institute for Savings at 6 1/2 % plus 2 "points." Special real estate tax considerations during the construction phase were arranged with the tax assessor. Working capital funds ($56,070) required by FHA for cooperatives will be covered by the 315 members' subscription fees ($178/member).

The BMIR 3% interest mortgage, which will be

Interviews with Mr. Bob Conner, Development Corporation of America

purchased by FNMA, is for $5, 575, 200. Some of the costs entering into the final figure are as follows^

Architectural fees $194, 993

Legal and Organizational fees $111, 500 (FHA scaled allowance)

Land acquisition from BRA $41, 000

Construction Costs $3, 493, 280

Marketing costs - FHA scaled allowance of 3% of mortgage - about $1666, 000

Developer's profit $557, 500 (FHA scaled allownace of 10% of mortgage)

B. Ripening

Academy Homes, Inc., is still in its "ripening" phase, i.e. the project is operating on a rental basis with a DCA affiliate (Community Management) acting as manager. Final closing on the mortgage is pending FHA approval of a DCA request for mortgage increase to cover costs of major repairs required after construction was completed.

Though the cooperative was advertised in the Boston Globe and on local radio stations, preference for membership was given to applicants displaced by government clearance actions in accordance with FHA regulations. In addition, a serious attempt was made

to integrate the project by giving special consideration to white applicants; however that effort cannot be regarded as successful considering that 90% of the present occupants are black.

C. Permanent phase

The mortgage is for 40 years, but cooperators do not acquire equity withdrawal rights until the cooperative has been in effect for 3 years. If the project is not co-opted it remains as a rental project and the difference between the subscription fee or downpayment and one month's rent (security deposit) is refunded. The total monthly housing expense is expected to range between $92 and $133 for one and four-bedroom apartments respectively.

DCA presently prefers cooperatives to condominiums because it feels that cooperatives are more profitable under current conditions.

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer James F. Linehan
   Address Development Corp. of America
   31 Milk St., Boston, Mass.

2) Cooperative x Condominium ___ Single Ownership ___
   New Construction x Rehabilitation ___

3) Number of units total 316 Number of units completed so far 316

4) Type of structures: one-family ___ two-family ___ three-family ___
   (and how many)

   How many one-bedroom 22 two-bedroom 83 three-bedroom 130
   Other ______

5) Total mortgage: $5, 575, 200

6) When was project begun ________ When was project completed 1967

7) Description of neighborhood: urban renewal

II Construction Phase

A. Land Acquisition
   1) agency acquiring land BRA
   2) cost of land $41, 000
   3) current availability of similar land ______________

B. Development Financing
   1) construction loan 5, 575, 200 interest 6 1/2% plus 2 points loan to value ratio 90%
   2) FHA 221(d)(3) Conventional _________
   3) Bank Provident Institute for Savings Type Savings
   4) source of working capital DCA
   5) profit $557, 500

III Ripening

1) tenant selection criteria credit rating
2) income level below $10, 000
3) monthly housing cost $92 to $133
4) subsidy _________
5) length of ripening 2 yrs. from construction until coop takes effect; then 3 years until equity builds up.

6) amortization none

7) procedure in case of default straight eviction

8) profits to manager ____________

IV Permanent

A. Financing of Ownership Transfer

1) mortgage $575, 200 interest 3% length 40 years

2) FHA 221(d)(3) Conventional __________

3) Bank FNMA Type __________

4) Down payment none Closing costs ________ source ________

5) sweat equity none

6) monthly housing costs $92 to $133

7) subsidy some Dec 23

B. Management

1) homeowner's property control through coop corp.

2) procedure on sale no sale unless coop buys or gives approval on outside buyer.

3) procedure on default eviction and refund of difference between equity and members indebtedness to coop.

C. Social Services

1) list services provided none

2) how are such services financed

THE TORRE ALTA CONDOMINIUM

The Torre Alta condominium is the first FHA condominium project in the country. It is a seventy-unit, high-rise located in Hato Rey, Puerto Rico. The sponsor-developer of Torre Alta is Mr. John Kelly who has completed nearly seven thousand (7, 000) homes under FHA and government programs in Puerto Rico alone. He has also completed a large number of FHA housing projects in the New England states. Mr. Kelly's firm is Pioneer Developers, Inc., 151 Tremont St., Apt. 18R, Boston, Mass.

A. Construction

Torre Alta occupies 24, 500 sq. ft. of developed land which was bought from a private owner and improved to meet FHA standards. Besides FHA approval, the developer had to get approval from the Planning Board, the sanitation department and another governmental agency entitled CRUV. Normally the Puerto Rico Planning Board, acting like an umbrella agency, is required to approve road construction, sanitation works and other aspects of construction. In this respect the Planning Board acts like a stricter FHA:

Interviews with Mary Kelly

In order to meet FHA regulations of the time, the project was constructed as a rental project under section 207 and later converted to a condominium project under section 234.

The total cost of the entire development from conception to ownership transfer was estimated at \$1,200,000. Five percent of this sum covered architectural fees, while 10% covered land acquisition costs.

The project was advertised in the press (The San Juan Star), on the air (WHOA radio station), and by means of a large press cocktail party.

The principal actors involved were:

Sponsor-Developer: Kelly and Sons, Inc.

Assistant from Puerto Rican Planning Board:
Jose Garcia Santiago

CRUV: Carlos Alvarado

FHA: Mr. Miller

Banks: Banco Popular
Banco de Ahora y Ponceno

B. Ripening

The tenant-owners of the condominium were all in the middle-to-upper income range. During ripening period, which lasted from 6 to 8 months, Mary Kelly and her sister acted as managers of the project. Mary

Kelly does not remember whether equity was built by the tenant-owners during ripening.

Because of the close cooperation of FHA, the Puerto Rican Planning Board and Mr. Kelly, transfer of ownership was very smooth. As was implied earlier close cooperation was not only necessary but unavoidable.

C. Permanent phase

The condominium has been in operation for five years. Miss Kelly feels that the greatest difficulty encountered by her father and herself was the opposition by stateside bankers and attorneys to the whole concept of condominium ownership.

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Mary Kelly
Address Pioneer Developers Inc.
151 Tremont St., Boston, Mass.

2) Cooperative __ Condominium x Single Ownership __
New Construction x Rehabilitation __

3) Number of units total ___ Number of units completed so far 70

4) Type of structures: one-family ___ two-family ___ three-family ___
(and how many)

How many one-bedroom ___ two-bedroom ___ three-bedroom ___
Other ___

5) Total mortgage $1,190,000

6) When was project begun _____ When was project completed 1963

7) Description of neighborhood:

II Construction Phase

A. Land Acquisition
1) agency acquiring land Pioneer Developers Inc.
2) cost of land $120,000
3) current availability of similar land _______

B. Development Financing
1) construction loan $1.1 million interest ____ loan to value ratio 90%
2) FHA 207 then Conventional ________
3) Bank ___________ Type Banco Popular
Banco de Ahoray Ponceño
4) source of working capital ___________
5) profit __________

III Ripening
1) tenant selection criteria ________
2) income level upper middle
3) monthly housing cost _________
4) subsidy ___________
5) length of ripening 6-8 months

6) amortization ________
7) procedure in case of default

8) profits to manager ________

IV Permanent

A. Financing of Ownership Transfer
1) mortgage length __________ interest __________
2) FHA 234 Conventional ________
3) Bank ______________ Type ____________
4) Down payment ________ Closing costs ________ source ________
5) sweat equity none
6) monthly housing costs ______
7) subsidy ______

B. Management
1) homeowner's property control

2) procedure on sale
home asso has right of first refusal

3) procedure on default
standard

C. Social Services
1) list services provided
none

2) how are such services financed

MICAH CORPORATION

The Micah Corporation of Springfield, Massachusetts is a limited dividend company whose corporate goal is to help "fulfill the need for better housing in Springfield."

Micah was founded three years ago and currently has six full-time employees, none of whom had any prior professional housing experience except the Development Manager, who was formerly with the Springfield Housing Authority.

Micah's operation includes both long term rental and home ownership programs. To date, it has purchased sixty-nine houses: nine are still being rehabilitated, fourteen have been sold, and eight are in the process of being sold, the remaining houses are managed by Micah on a rental basis.

A. Rehabilitation

Micah purchases essentially sound but rundown houses for about $3, 500 to $9, 000, rehabilitates them, and then either sells or rents them. Money for purchase and rehabilitation comes out of the $100, 000 revolving fund raised by the sale of stock. Occasionally Micah

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Telephone Interviews with Nancy Teden

mortgages some of its properties with the Springfield Institute for Savings. Houses are always rehabilitated according to FHA standards, since most of Micah's prospective purchasers get FHA insured mortgages.

B. Ripening

Most purchasers do not buy their homes immediately, however, but live in their homes as tenants for a year's trial period. During this time rents range from \$75 to \$100 per month, which is also approximately the same as the monthly debt service after purchase; and arrangements are sometimes made to augment the rental charge so as to build up the required downpayment by the time of purchase.

C. Permanent Phase

The rehabilitation loan and FHA purchase mortgage are at market rates. Final selling price per house ranges from \$6, 500 to \$12, 500, which includes a Micah service charge or profit. A cash downpayment is required, from \$200 to \$300; and taxes are \$54 per \$1, 000. As much as \$500 in sweat equity can be credited to purchasers who participated in rehabilitation of their house (painting, decorating, etc.).

If the tenant decides against purchase, this money is refunded. Though Micah provides supporting social

services for its tenants and owners through its associated nonprofit Micah Foundation, it has no special financial obligations to home owners after purchase. Hence, in case of mortgagor's default, Micah is not bound to repurchase the house.

The Micah Foundation is described in a recent circular from the Micah Corporation.

> "The continued growth and experience of Micah Corporation in its housing work has demonstrated the need for greater family and community services than the Corporation can feasibly handle as a limited dividend company. Consequently, in April of this year (1968), MICAH FOUNDATION, INC. was formed.
>
> Micah Foundation is a nonprofit organization which will be the social arm of Micah Corporation. It will provide social and community services not presently available in the community. These programs may be made available to the "community at large" and not necessarily limited to families in Micah housing. As a nonprofit organization, the Foundation will be eligible for tax deductible gifts from interested individuals and organizations as well as government funds and grants.
>
> Such grants will eventually enable Micah Foundation to offer a much wider range of services than formerly attempted by the Micah Corporation and, in this way, come closer to achieving the original goals of the Corporation in the areas of neighborhood improvement and in making homeownership possible for more families. Financial counseling, home maintenance skill workshops and rental housing services are just some of the areas in which the Foundation work needs to be expanded. Also planned is the expansion of the scope of the Micah Volunteer Corps."

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Micah
   Address

2) Cooperative __ Condominium __ Single Ownership x
   New Construction __ Rehabilitation x

3) Number of units total ___ Number of units completed so far 79

4) Type of structures: one-family 53 two-family 23 three-family 2
   four-family 1

   How many one-bedroom ___ two-bedroom ___ three-bedroom ___
   Other _____

5) Total cost $6500 - $12500 per unit

6) When was project begun 1965 When was project completed _________

7) Description of neighborhood: primarily in Hill-McKnight neighborhood
   a racially changing area

II Construction Phase

A. Land Acquisition
   1) agency acquiring land Micah
   2) cost of land $3, 500 to $9, 000
   3) current availability of similar land no problem yet

B. Development Financing
   1) construction loan ___ interest ___ loan to value ratio 90% to 100%
   2) FHA ______ Conventional x
   3) Bank Springfield Type Savings
   4) source of working capital general fund
   5) profit see comments next page

III Ripening
1) tenant selection criteria credit rating, home visit
2) income level $5, 000 - $8, 000
3) monthly housing cost $75 - $125
4) subsidy none
5) length of ripening 1 year
6) amortization some sweat equity (as much as $500)

7) procedure in case of default

Eviction with refund of downpayment for permanent phase if already paid minus rent due to Micah

8) profits to manager see comments

IV Permanent

A. Financing of Ownership Transfer

1) mortgage $6, 500 to $12, 500 interest 6% length 30 years
2) FHA 203 B Conventional ____
3) Bank Springfield Institute for Savings Type Savings
4) Down payment $200 to $300 Closing costs ____ source ____
5) sweat equity up to $500
6) monthly housing costs $75 to $125

B. Management

1) homeowner's property control absolute

2) procedure on sale standard

3) procedure on default standard

C. Social Services

1) list services provided
home maintenance assistance
finance counseling

2) how are such services financed
paid for by Micah Foundation

V Comments

1) customers black, white, and Puerto Rican
2) housing stock is structurally sound
3) re-hab. costs covered by general fund. Many purchases are mortgage loans rather than cash.
4) limited dividend corporation - no dividends yet
5) profit on sale is a judgement factor. Micah tries to sell in the $8, 000 - $10, 000 range. Hence, they tend to make profits as large as possible within that final range of sale price.
6) profits during ripening are also judgement factors. Micah tries to charge some rent as household expenses after ownership transfer.

FLANNER HOUSE HOMES

Flanner House Homes, located in Indianapolis, Indiana, is sponsored by the Board for Fundamental Education (BFE) which was chartered by act of Congress in 1954. To date, approximately 389 of these modern, 3 - bedroom ranch style homes have been built. Data for this case was compiled from an unpublished manuscript "The Rediscovery of Home Ownership" by John McClaughry (former housing assistant to Senator Percy), Jody Newman's MIT Master's Thesis, and the published testimony of Dr. Cleo F. Blackburn, the Executive Director of BFE during the 1967 Senate Subcommittee Hearings on Housing and Urban Development.

A. Construction

BFE began operation with a $100, 000 donation (currently appreciated to $150, 000) which was used for interim financing of construction. The land on which the homes were built was assembled, cleared and sold to BFE by the Indianapolis Redevelopment Commission for about $400 to $500 per lot. (At this time the cost

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Compiled from Literature
1. Senate Housing Sub-Committee Hearings 1967
2. Unpublished Manuscript by John McClaughry-"The Rediscovery of Home Ownership"
3. MIT Masters Thesis by Jody Newman

of similar land sites is considerably higher - approximately $5000 - thereby making the final price for similarly constructed homes correspondingly higher than the prices quoted below).

In Dr. Blackburn's Senate testimony he declared, "Every house we built has a tentative FHA commitment. So he [a cooperating banker] knows he has to get his money when the house is closed. So the bank is really taking no risk. He is simply providing the use of funds. That is why we are able to get a line of credit from a bank unsecured at one-half percent of the prime." (p. 734 Senate Hearings 1967)

B. Ripening

None.

C. Permanent Phase

The final selling price per house averaged $12, 000 to $14, 500 which included a BFE service fee in addition to construction costs. No cash downpayment was required. However, up to $3000 or 39% credit on the selling price was granted as a result of the extensive amount of sweat equity accrued during construction. Thus an FHA 203, 5 1/4% mortgage of only $9, 000 or $10, 000 was needed. Principal, interest, insurance, and tax payments amounted to $75 to $98 monthly.

Standard procedures are followed in case of homeowner's default. However, it should be noted that BFE has the lowest default rate for any Indiana corporation.

As a result of prolonged (18 months) negotiations with the Indianapolis Building Trades Council, a sweat equity program was established. Prospective owners were given a one week trial period and if found acceptable were put on teams working on all aspects of the construction except for licensed skilled tasks (plumbing and electrical). The use of prefabricated color coded construction materials enabled the teams to complete a set of houses in 9 months working at about 20 houses per week per man. New worker's hourly wages began at $.35/hour and were increased according to his increasing skill up to $2.35/hour.

All of the 2700 members of the participating families were black and household income averaged $4200 - $4500.

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Dr. Cleo F. Blackburn, Exec. Director
   Address Board for Fundamental Education (BFE)

2) Cooperative ___ Condominium ___ Single Ownership x
   New Construction x Rehabilitation ___

3) Number of units total ___ Number of units completed so far 389

4) Type of structures: one-family 389 two-family ___ three-family ___
   (and how many)

   How many one-bedroom ___ two-bedroom ___ three-bedroom 389
   Other ___

5) Total cost $12, 000 - $14, 500 per unit

6) When was project begun 1954 When was project completed ongoing

7) Description of neighborhood: urban renewal

II Construction Phase

A. Land Acquisition
   1) agency acquiring land BFE through the Indianapolis Redevelopment Commission
   2) cost of land $400 - $500 per lot
   3) current availability of similar land cost of similar land is much higher - $5, 000 per lot

B. Development Financing
   1) construction loan ___ interest ___ loan to value ratio ___
   2) FHA ___ Conventional x
   3) Bank ___ Type ___
   4) source of working capital revolving fund
   5) profit ___

III Ripening - no ripening
1) tenant selection criteria ___
2) income level $4200 - $4500
3) monthly housing cost ___
4) subsidy ___
5) length of ripening ___
6) amortization ___

7) procedure in case of default

8) profits to manager __________

IV Permanent

A. Financing of Ownership Transfer

1) mortgage $12, 000 to $14, 500 interest 5 1/4% length 30 years
2) FHA 203 Conventional __________
3) Bank __________________ Type _______________
4) Down payment none Closing costs __________ source _________
5) sweat equity up to $3000
6) monthly housing costs $75 - $98
7) subsidy ___________
8) income level $4200 to $4500

B. Management

1) homeowner's property control absolute

2) procedure on sale standard

3) procedure on default standard

C. Social Services

1) list services provided
   comprehensive: job placement, adult education, etc.

2) how are such services financed
   BFE

BETTER ROCHESTER LIVING, INCORPORATED

Rochester, New York

BRL is a private nonprofit organization which assists low-income families in becoming homeowners.

The organization was conceived in 1962 and went into operation in 1964. It obtained its funds from various community sources; a local industry committee provided $17,500 seed money, local commercial banks provided a revolving credit pool of $550,000 to cover interim financing; local savings banks committed themselves to form a mortgage pool, which, in 1967, was $550,000 annually. In addition, local social agencies committed themselves to provide counselling for families.

The basic procedure of BRL is as follows: The credit history of a family desiring home ownership is carefully examined. BRL takes credit information and goes about improving the family's credit record. Next, BRL, consolidates the debt obligations of the family while realistically helping them stabilize their expenditures. When the family is satisfied that it is ready to assume the obligations of homeownership, BRL, together with a realtor chosen by the family, begins searching for a house anywhere in the city.

B. Ripening

During rehabilitation the family is living in the premises and is paying rent to BRL (usual period is from six to eight months). Upon rehabilitation BRL secures on behalf of the family an FHA 221(d)(2) mortgage at 6% for 30 years. The buyer uses his sweat equity to cover the 3% downpayment and closing costs.

C. Permanent Phase

When a home is found, BRL purchases it on behalf of the family, after obtaining a firm FHA commitment for an insured mortgage large enough to cover initial costs and renovations. The house selected must be in need of rehabilitation, since BRL's gimmick is to have the homeowner provide sweat equity for rehabilitation.

As of July of 1967, 96 homes had been sold, and 82 additional families were house hunting.

BRL has a very interesting program in the offing called Program II. This program was turned down by HUD, because it lacks a research component, even though the previous successes of BRL testify to the fact that they do not need any research to develop a successful program.

The basic principles of Program II are as follows:

1. A home is purchased by BRL after obtaining a firm FHA 221(h) individual mortgage for groups of eight and conditional FHA 221(h) individual mortgages.

2. BRL rents to families for 1 1/2 to 2 1/2 years instead of the present 8 to 10 months.

3. During the longer period, BRL and other community agencies will give concentrated counselling to aid the family to become financially stable and to develop acceptable home maintenance and management skills.

4. When the family credit is stabilized, and the house is fully rehabilitated, the house is spon off from the blanket mortgage of eight into an individual percent 221(h) mortgage, and the deed is delivered to the family, and they now move from tenant to owner.

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Garson Meyer
Address President BRL
Rochester, N.Y.

2) Cooperative ___ Condominium ___ Single Ownership _x_
New Construction ___ Rehabilitation _x_

3) Number of units total ___ Number of units completed so far _96_ (July 67)

4) Type of structures: one-family ___ two-family ___ three-family ___
(and how many)

How many one-bedroom ___ two-bedroom ___ three-bedroom ___
Other _____

5) Total cost: $8, 000 - $11, 000 per unit

6) When was project begun _1964_ When was project completed _ongoing project_

7) Description of neighborhood: Homes bought anywhere in Rochester

II Construction Phase

A. Land Acquisition

1) agency acquiring land _BRL_
2) cost of land ___________
3) current availability of similar land _________

B. Development Financing

1) construction loan ___ interest _6%_ loan to value ratio ________
2) FHA 221(d)(2) Conventional ______
3) Bank __________ Type _Commercial_
4) source of working capital ____________
5) profit __________

III Ripening

1) tenant selection criteria _none_
2) income level _$3, 800 - $5, 500_
3) monthly housing cost ________
4) subsidy _________
5) length of ripening _8 - 10 months_

6) amortization <u>none during ripening</u>
7) procedure in case of default

8) profits to manager ____________

IV <u>Permanent</u>

A. <u>Financing of Ownership Transfer</u>
1) mortgage length <u>30 years</u> interest <u>6%</u>
2) FHA <u>221(d)(2)</u> Conventional _________
3) Bank ______________ Type ____________
4) Down payment <u>3%</u> Closing costs <u>$500</u> source ____________
5) sweat equity <u>covers 3% downpayment and closing costs</u>
6) monthly housing costs ___________
7) subsidy __________ Final price $8,000 - $11,000

B. <u>Management</u>
1) homeowner's property control

2) procedure on sale

3) procedure on default

C. <u>Social Services</u>
1) list services provided

2) how are such services financed

HOPE

Home Ownership Plan Endeavor, Inc. of Baltimore, Maryland is a nonprofit corporation founded to sponsor homeownership through the purchase of individual or groups of houses in neighborhoods which are not beyond rehabilitation. After purchase the company resells at cost to families referred to it by churches, community action centers, or social agencies. HOPE was founded in September of 1964 but did not begin full operations until February of 1966. It has sold five houses to date.

A. <u>Rehabilitation</u>

In February of 1966, OEO gave HOPE a $99,780 grant to demonstrate the feasibility of long term, low interest FHA mortgages involving rehabilitated buildings. HOPE intends to sell $500,000 worth of 4 percent $100 debenture notes maturing five years from the date of issue secured only by the company's equity in houses owned by it. The entire cost of acquisition and rehabilitation is estimated at between $3,500 and $6,000 per unit.

Data compiled from the 1967 Senate Housing Subcommittee Hearings (page 1026-1046

B. "Ripening" and Ownership Transfer

"Where the family is able to make a 20 percent downpayment on the purchase price of the house, the Company will take a mortgage for the balance. Generally speaking, the mortgage will have a term of 10 to 15 years, but longer terms may be provided for under special circumstances. The mortgages will bear interest at six percent per annum on a declining balance. The Company also proposes to set up a loss reserve equalling 10 percent of the mortgage or land installment contract taken in connection with the sale of each house. Operating costs in connection with the servicing of mortgages and that facet of the Company's activities allocatable to the purchase and sale of houses (and the reserve fund) will constitute a charge against the difference in interest, if any, shall exceed reserves and operating expenses, it would constitute a theoretical profit to the Company. Should the Company attain such a stature, consideration will be given to the reduction of interest rates or to the employment of such funds in some undertaking consistent with the objectives stated in its Charter.

Where a selected family is unable to make a 20 percent downpayment, it is the Company's intention to sell the property under a land installment contract and to subsequently give a mortgage when the family has acquired a 20 percent equity in the property. In the event the Company may find it necessary to retake possession of a house under a land installment contract, the purchaser will be credited and paid any equity which he may have accrued in the house over and above the selling price of the house plus repairs to another purchaser."

C. Services

HOPE conducts intensive homeownership and follow up programs.

Quotation from page 1032 Senate Hearings.

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Mary C. Cardillicchio
   Address President, HOPE

2) Cooperative ___ Condominium ___ Single Ownership x
   New Construction ___ Rehabilitation x

3) Number of units total ___ Number of units completed so far ___

4) Type of structures: one-family ___ two-family ___ three-family ___
   (and how many)

   How many one-bedroom ___ two-bedroom ___ three-bedroom ___
   Other

5) Total cost: $3, 500 - $6, 000 per unit

6) When was project begun 1966 When was project completed ___

7) Description of neighborhood:

II Construction Phase

A. Land Acquisition
   1) agency acquiring land HOPE
   2) cost of land $1, 000 - $6, 000 (cost of land and house)
   3) current availability of similar land ___

B. Development Financing
   1) construction loan ___ interest ___ loan to value ratio ___
   2) FHA ___ Conventional ___
   3) Bank ___ Type ___
   4) source of working capital $99, 780 grant from OEO. Debentures, redeemable after 5 years, are sold. They currently pay 4% per year.
   5) profit ___

III Ripening
1) tenant selection criteria through a psychologist
2) income level ___
3) monthly housing cost ___
4) subsidy ___
5) length of ripening ___

6) equity ___________
7) procedure in case of default

8) profits to manager ___________

IV Permanent

A. Financing of Ownership Transfer
1) mortgage length 10 - 15 years interest 6%
2) FHA 220 or 221(d)(3) Conventional ________
3) Bank ______________ Type __________
4) Down payment 20% on purchase price of house Closing costs _______
source _________
5) sweat equity __________
6) monthly housing costs _________
7) subsidy ___________ Final selling price $3, 500 - $6, 000

B. Management
1) homeowner's property control

2) procedure on sale

3) procedure on default

C. Social Services
1) list services provided

2) how are such services financed

THE UPLAND CORPORATION

The Upland Corporation is a six unit cooperative on Upland Road in Cambridge. It was founded five years ago by the resident tenants.* The following information was obtained from Roger Evans who handled the legal aspects and is the present manager.

A. Formation of the Cooperative

The owner decided to sell the building. Four of the six tenants decided to buy it to forestall rent increases. One year later the remaining two tenants decided to participate and a cooperative was established. The initial purchase was subject to a first mortgage in the amount of $28,000; the seller gave a second for $10,000 and the equity invested was $12,000. Since the date of purchase, 1962, the first mortgage has been refunded, the second mortgage paid in full, and improvements to the premises by the corporation and stockholders-tenants aggregating $45,000 have been made.

Present first mortgage is with Cambridge Savings Bank for $28,000. Each stockholder jointly and severally guarantees the note, but the bank releases the guarantee

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Interview with Mr. Roger Evans

* Residents who were tenants at the time.

in the event of sale of the shares owned by the stockholder if the transferee is satisfactory to the bank and assumes the liability.

The assessed value is $32, 000 and the tax rate is $87.50 per thousand. There are three, one-bedroom apartments which currently cost $120 per month; one, two- bedroom apartment at $147 per month; and two, three-bedroom apartments at $132 per month.

B. Ownership Transfer Procedure

Five units have been resold to date, the most recent being a three-bedroom unit for $17, 500. The sale process is more or less as follows.

An owner finds a buyer, negotiates a firm price, then submits a purchase and sale agreement to the corporation and other owners who have a right to match the price and purchase within thirty days; upon waiver of this right (after a lapse of thirty days) seller may complete the sale.*

In case of a complete default by an occupant; the corporation would foreclose his stock, terminate his lease, take possession of the apartment, sell the shares and write a new lease for the buyer.

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* Example of recent sale: purchaser pledged shares against $5000 loan to pay for shares of 7% interest

C. <u>Comment</u>

The following comment of Roger Evans is included because of the many interesting points he makes.

"The project, in our view, has been an outstanding success. The principal objection in doing others is that none of the present stockholders-tenants have sufficient incentive to develop others. (The present occupants include three architects and a real estate lawyer, among others) and that, from the stand point of a developer, it takes as much effort, if not more, to do a coop as a rental project.

"A coop sale results in ordinary income to the developer and no depreciation (such as would accrue in the ownership of a rental project. Even with the 3 percent marketing fee which is allowed under Section 213, the loss of depreciation would discourage most developers except in a case where the land is made available <u>only</u> for this purpose by public authority and steps are taken to assure that public authorities do much of the promotion and marketing." (e.g. As in the DCA 221(d)(3) properties in the BRA areas, and the Brookline village cooperative).

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Roger Evans
   Address Ropes & Gray
   225 Franklin St., Boston, Mass.

2) Cooperative X Condominium ___ Single Ownership ___
   New Construction ___ Rehabilitation x

3) Number of units total 6 Number of units completed so far 6

4) Type of structures: one-family ___ two-family ___ three-family 2
   (and how many)

   How many one-bedroom 3 two-bedroom 1 three-bedroom 2
   Other ___

5) Total cost $50, 000

6) When was project begun ___ When was project completed 1963

7) Description of neighborhood: middle class residential

II Construction Phase none purchase

A. Land Acquisition
   1) agency acquiring land Upland Corp.
   2) cost of land $50, 000
   3) current availability of similar land not applicable

B. Development Financing
   1) construction loan 40, 000 interest ___ loan to value ratio 80%
   2) FHA ___ Conventional x
   3) Bank Cambridge Savings Type Savings
   4) source of working capital ___
   5) profit none

   Note: Cambridge Savings Bank provided first mortgage $28, 000. Former owner provided second mortgage $10, 000 purchase money mortgage

III Ripening - No ripening
   1) tenant selection criteria former resident
   2) income level upper middle
   3) monthly housing cost ___
   4) subsidy none
   5) length of ripening ___
   6) amortization not applicable

7) procedure in case of default   not applicable

8) profits to manager not applicable

IV Permanent

A. Financing of Ownership Transfer

1) mortgage length 25 years   interest ________
2) FHA __________   Conventional x
3) Bank ______________   Type __________
4) Total down payment $12,000   Closing costs ______   source ______
5) sweat equity __________
6) monthly housing costs $120 to $147
7) subsidy none

B. Management

1) homeowner's property control
thru coop

2) procedure on sale   Right of first refusal by corporation (30 day limit)

3) procedure on default   Corporation would foreclose on the stock under the commercial code, terminate the lease, take possession of the apartment and sell the shares, at which time a new lease for the buyer would be written up.

C. Social Services

1) list services provided
none

2) how are such services financed

FAIR HOUSING, INC.

A. Background

Most housing programs are essentially housing development operations which construct or rehabilitate housing stock so that the final selling price remains within the purchasing range of low income families. One of the underlying assumptions of such operations is that the area's existing housing stock is either (1) beyond the purchasing range of low income residents or (2) substandard.

Fair Housing, Inc., on the other hand, is a housing service organization which does no construction or rehabilitation per se; its goal is to help low income families find decent housing on whatever basis available, rental or purchase. To attain this fixed goal, its programs over the ten years since its inception have evolved according to the changing felt needs of the black community of Roxbury it serves.

At first it concentrated on assisting black families find housing on an integrated basis throughout the New England Area. (This housing is still in effect.) Then it saw that there was a need for its services in helping low

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Interview with Mrs. Sadelle Sacks, Director

income blacks into the then segregated Boston public housing projects; and since many black public housing residents are also on welfare, Fair Housing naturally developed programs to assure reception of proper welfare allotments of these and other Roxbury residents. For similar reasons, it addressed its attentions to the enforcement of the housing code for these housing projects.

An extension of this last program to private landlords led to its receivership program, which is an attempt to force landlords of substandard housing to rehabilitate such structures according to housing code requirements.

Fair Housing then began persuading landlords to accept low income large families as tenants. The scarcity of public and private rental accommodations for such families led Fair Housing to develop a homeownership program.

B. <u>Homeownership Program</u>

Five aspects of this homeownership program are remarkable:

(1) Since October 1967 eighteen Fair Housing families have purchased low priced homes in the racially changing fringe areas around Roxbury.

(2) These houses have been of sufficiently high quality that Mrs. Sacks,* the director of Fair Housing and her colleagues were able to persuade both the FHA and local insurance companies to reverse their previous policies of not insuring mortgage housing structures in that area.

(3) No criteria was used by Fair Housing in selecting its client-purchasers; no criteria in the usual restrictive sense. Most of the eighteen purchasers would have been judged unacceptable by the "reasonable" standards of the other low income projects studied, As a matter of fact, Mrs. Sacks informed us that Fair Housing actually proceeded on a basis of reverse selectivity in these initial cases (i.e. applicants were deliberately selected for the precedents they would set, such as recently released convicts, unmarried female-headed households of ten or more children, etc.)

(4) Purchases were made directly by the home-owners without the usual trial basis period in which the property is held by a developer/sponsor.

(5) Perhaps most remarkable of all is the fact that all of these eighteen homeowners are Welfare recepients. This is made possible by a separate waiver for each case obtained from Mr. Dan Cronin, the head of the Welfare agency, stating that Welfare will make no claim on the equity built up by the home-owning family. Welfare has been able to justify this arrangement by the rather surprising fact, proven eighteen times only by Fair Housing, that it is cheaper for such large low income families to own their own homes than to rent substandard apartments as tenants.

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* Mrs. Sacks and many of her colleagues are white. We merely note this fact because we are unable to determine its importance with respect to the past or future effectiveness of Fair Housing, Inc.

C. Process and Examples

After Fair Housing accepts a client's application for home ownership, it strengthens his credit position by such means as helping him to get bill consolidation loans from banks (instead of loans from high interest finance companies) and compiles a file of testimonial letters of his credit dependability from various stores where he shops. It helps the client locate an acceptable house, works out a family budget for mortgage payments and household expenses on which it gets Welfare approval, equity waiver, and promise of future cooperation. Finally Fair Housing is the critical factor in the client's obtaining fire insurance and FHA 221(d)(2) market rate interest mortgage (Note (d)(3) BMIR mortgages not available in these fringe areas.) In some cases, Fair Housing clients supplement their income by renting out one of the two or three apartments in their houses. Mortgage funds are supplied by a pool of Boston Banks. Houses cost from $5700 to $14000; closing costs (from $400 to $900) are provided to the client by a Fair Housing grant which the client has a moral (not legal) obligation to repay. Some clients pay part of this fee in advance by making regular deposits with Fair Housing, Inc. before purchase. (Note: many clients are reluctant to use banks.) Fair Housing

has raised a $6, 222 revolving fund for such grants from private contributors. This entire purchase process takes about two or three months. Relevant financial statistics for three Fair Housing homeowners are presented in the table below.

Family Membership	Income	Home Cost/Kind	Closing Cost	Monthly Cost
Mother, father 14 children	$9, 500 half welfare half job	$5, 700* 13 rooms	$578	$ 79
Mother and 5 children	$6, 898 ADC and part time	$12, 500 2 family	$673	$129.86 90.00 from other apartment
Mother, father 12 children	$9, 667 job and ADC	$12, 900 single family	$675 (pre paid by family)	$117.89

* Note: This is the lowest cost house ever insured by FHA in Boston.

D. Conclusion

Fair Housing Inc. has formed a homeownership association whole membership will be open to the entire city. This association will possibly incorporate into a nonprofit cooperative for the purpose of purchasing housing materials and supplies. Meanwhile, Fair Housing works closely with the Welfare department to ensure the provision of those social services available through the Welfare department. In addition, Fair Housing conducts group therapy sessions for the mothers of these

large families under the supervision of a trained psychiatrist.

It is our opinion that this homeownership program has gotten off to an exceedingly promising start. However, judgment on the extent of the program's success should be postponed for another year or so for the following reasons:

(1) It has been the experience of most other low income programs throughout the country that a trial period of about a year's duration is necessary for prospective homeowners to determine whether they really want to undertake the responsibilities of homeownership or whether they were indeed capable of assuming such responsibilities.

(2) Fair Housing clients have been able to find adequate housing in fringe areas. How extensive is this housing stock? Will it be quickly exhausted? If so, larger scale programs would have to follow the usual new construction/rehab. route. In any case, should these first eighteen cases work out successfully, Fair Housing would have given conclusive proof that homeownership is indeed feasible for the lowest income groups.

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Mrs. Sadelle Sacks
   Address Fair Housing Inc.

2) Cooperative __ Condominium __ Single Ownership x
   New Construction __ Rehabilitation __ Purchase x

3) Number of units total ___ Number of units completed so far 18

4) Type of structures: one-family x two-family x three-family x
   (and how many)

   How many one-bedroom ___ two-bedroom ___ three-bedroom ___
   Other___

5) Total cost: N:A:

6) When was project begun Oct. 67 When was project completed ongoing

7) Description of neighborhood: Racially changing fringe areas of Roxbury - Dorchester

II Construction Phase No construction - direct purchase of existing stock

A. Land Acquisition
   1) agency acquiring land New homeowners with help of Fair Housing
   2) cost of land ___
   3) current availability of similar land ___

B. Development Financing
   1) construction loan ___ interest ___ loan to value ratio ___
   2) FHA ___ Conventional ___
   3) Bank ___ Type ___
   4) source of working capital ___
   5) profit ___

III Ripening No ripening

1) tenant selection criteria none
2) income level welfare recipients
3) monthly housing cost ___
4) subsidy ___
5) length of ripening ___
6) equity ___

7) procedure in case of default

8) profits to manager ________

IV Permanent

A. Financing of Ownership Transfer
1) mortgage $5700 - $14,000 interest 6 3/4% for 30 years
2) FHA 221(d)(2) Conventional ________
3) Bank Pool of banks Type ________
4) Down payment $400 - $900 Closing costs ____ source grant from Fair Housing
5) sweat equity none
6) monthly housing costs $80 - $120
7) subsidy welfare

B. Management
1) homeowner's property control absolute

2) procedure on sale standard

3) procedure on default standard

C. Social Services
1) list services provided
group therapy for mothers of large families

2) how are such services financed
by donations to Fair Housing

V Comments
1) All Fair Housing clients are on welfare

QUINCY - GENEVA DEMONSTRATION BLOCK

The Quincy - Geneva Demonstration Block is a three block pilot project for a proposed 35 block home-ownership - rehabilitation project in the Roxbury - North Dorchester black ghetto section of Boston, Mass.

Developer: Denis Blackett, President

Firm: Housing Innovations, Inc. (HII)

Address: 366a Blue Hill Avenue
Roxbury, Mass. 02121

Housing Innovations, Inc., was founded by Mr. Denis Blackett in June 1966 "to provide consulting and planning services in the field of low - income housing." The Quincy - Geneva Pilot Project is its first effort. Mr. Blackett, an architect - civil engineer, was formerly with the Boston Redevelopment Authority for two and a half years and had also served as the Director of the Roxbury Development Corporation.

Although HII is the actual developer, official title to all properties involved are held by the Foundation for Housing Innovations, Inc. (FHI), a non-profit fund-raising corporation founded in April, 1967, to provide financial resources during the experimental phases of the project. HII in turn receives either grants or

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Interview with Mr. Denis Blackett

project subcontracts from FHI for which it charges appropriate fees.

A. Project Profile

The Pilot Project contains 90 structures or 250 dwelling units as well as two blocks of commercial properties along Blue Hill Avenue. The physical and social characteristics of the Pilot Project area are typical of the 35 - block area. Most of the structures are three-family houses, either wooden "triple deckers," three-story brick apartment houses, or one and two-family homes which have been converted into three-family units. Ninety percent of the structures are in need of major or minor repairs. Fifty percent of the structures are owned by absentee landlords. (These statistics are derived from an extensive preliminary survey of the area conducted by HII last year.) The objective of the homeownership - rehabilitation program is to acquire at least seventy-five percent of the absentee-owned structures in the neighborhood and to turn them into resident-owned, rent-producing structures - without substantially raising rents. FHI currently has title to 9 properties and options on 30 others. Three units have been rehabilitated and occupied under a tenant-manager rental arrangement.

To complement this physical rehabilitation, comprehensive social services are being programmed; such as, community organization, job training specifically for single females with children, job training for adult males who are unemployed, underemployed, or dissatisfied with their present job, child care centers, adult education, and a program for people on welfare, designed to increase their income and their chances of escaping the poverty-welfare cycle.

B. Development Process

After the Foundation for Housing Innovations acquires a property, it is rehabilitated by local contractors with the help of the future homeowner where possible. FHI trains the homeowner in simple rehabilitation skills prior to his participation in the "sweat equity" program. Such participation by the homeowner can reduce his expenses (by as much as $2000) as well as increase his interest in maintaining the property.

Once the property is rehabilitated, the homeowner will either buy the property immediately or move in on a trial basis as tenant-manager after which time he can decide whether he really wants to undertake the full responsibilities of homeownership. (Note: during this period rent is credited toward the mortgage.) Homeowners

and tenant-managers receive continued assistance and training in the care and management of their property from the Foundation.

Because homeownership by the low-income residents of the Pilot Project requires in some cases up to one hundred percent financing, the Foundation deposits "equity funds" with the conventional mortgagees to make up the difference between the seventy-five to eighty percent financing which the mortgagee normally gives and the amount of financing which the homeowner needs. The mortgagee then accepts up to a one hundred percent mortgage based on the value of the property and on FHI's equity funds. These equity funds are placed with the mortgagee as interest-earning blocked deposits, and are released to FHI when the owner reduces his mortgage. (Note: the John Hancock Insurance Co. has lent FHI $175,000 for such blocked deposits).

The payments made on the mortgage go first to FHI. Thus, for a 15-year mortgage at 6 1/4% interest with 75% bank financing, the equity funds would be completely released in 5 years; for the same mortgage based on a 25-year period, the funds would be released in 10 years.

In order to encourage conventional mortgagees

to participate in the program, one or more of the following devices are added to the normal mortgage system:

1) FHI will make its blocked deposits available to the mortgagee to cover any losses due to default.

2) FHI will set aside an "insurance" fund of not less than $25,000 to cover losses due to default.

3) FHI will repurchase properties in default, and find new owners for them.

The first three properties developed by the Foundation were done according to the above scheme due to the previous unavailability of FHA mortgage insurance coverage for the area. Arrangements have subsequently been worked out between FHA and the Foundation so that FHA 203b 97% coverage is currently available for homeowners in the Pilot Project area.

C. <u>Costs to Purchaser</u>

The final selling price per house (3 units) is about $18,000. This includes architectural and legal fees, acquisition and rehabilitation costs, an HII Service Fee, and an FHI Bad Debt Reserve charge. The assessed value of the house is only $4500 and was determined by negotiations between Mr. Blackett and the Boston tax assessor's office. The tax rate is $110 per thousand. The developer's profit, i.e., the HII Service Fee, is about $1500 per house.

The yearly cash expenses for the purchases under the blocked deposit scheme is estimated to be about $3000. This includes principal amortization, interest, real estate taxes, insurance, heat, water and sewer, repairs, redecoration, and replacement. Even with 100% financing, this is clearly too expensive for home-owners in the lowest income brackets. However, an integral part of the FHI program is that the homeowner rent out the other two units to local tenants. Risk of vacancies is minimal as a result of an agreement negotiated by Mr. Blackett with the Boston Housing Authority whereby the BHA will fill all Pilot Project vacancy requests with leased housing (i.e., BHA subsidized) tenants. The net income from rental of the other two units is about $2100 (on a $95 per month basis).

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Foundation for Housing Innovations
Address 366 A Blue Hill Ave., Roxbury, Mass. 02121

2) Cooperative ___ Condominium ___ Single Ownership x
New Construction ___ Rehabilitation x

3) Number of units total ___ Number of units completed so far 3 houses

4) Type of structures: one-family __ two-family __ three-family x
(and how many)

How many one-bedroom ___ two-bedroom ___ three-bedroom ___
Other ___

5) Total cost: $18,000 per unit

6) When was project begun 1967 When was project completed _______

7) Description of neighborhood: 50% deteriorated
50% absentee owned

II Rehabilitation Phase

A. House Acquisition
1) agency acquiring land FHI
2) cost of house $6000
3) current availability of similar land no problem

B. Development Financing
1) construction loan ___ interest 6 3/4 - 7% loan to value ratio 80%
2) FHA ________ Conventional _______
3) Bank ________ Type savings
4) source of working capital FHI
5) profit ________

III Ripening
1) tenant selection criteria credit rating; neighborhood resident
2) income level $3500 to $10,000
3) monthly housing cost $70
4) subsidy BHA leased
5) length of ripening 1 year
6) equity built up by tenant (see comments next page)

7) procedure in case of default

8) management fees 10% of rental plus 5% janitorial

(7% for tenant manager)
( ) 10% of rental
(3% for FHI)

IV Permanent

A. Financing of Ownership Transfer

1) mortgage $16, 300 interest 6 3/4 - 7% 25 years
2) FHA ________ Conventional ________
3) Bank ________ Type savings
4) Down payment none Closing costs ________ source FHI
5) sweat equity ________
6) monthly housing costs ________
7) subsidy ________ Final sale $18, 000

B. Management

1) homeowner's property control

2) procedure on sale
   FHI has right of first refusal

3) procedure on default
   FHI assumes mortgage. Owner becomes a tenant and is given BHA leased housing subsidy if necessary.

C. Social Services

1) list services provided
   job counselling
   home budgeting

2) how are such services financed through FHI

V Comments

1) conventional mortgages used for first 3 houses (rehab.)
2) no houses sold yet; tenants still in ripening phase
3) FHA mortgages are probable future development
4) under current conventional scheme banks provide up to 80% mortgage loan, the balance being covered by a blocked deposit from the Foundation until the homeowner pays off this 20% (see text of case study)
5) tenant's rent during ripening used to amortize mortgage; thus he has accumulated some equity by time of purchase
6) equity built up during ripening on total rent - i.e. tenant manager plus rent from other 2 units.

BICENTENNIAL CIVIC IMPROVEMENT CORPORATION

The Bicentennial Civic Improvement Corporation in St. Louis, Missouri, began operations informally in 1963 and was incorporated in 1964. Data for this case was compiled from: (1) 1967 Senate Housing Subcommittee Hearings (page 974-993); (2) An unpublished manuscript by John McClaughry (3) M.I.T. Masters Thesis by Jody Newman. In case of discrepancy between these sources, most credance was given the Hearings, McClaughry's paper, and Newman's thesis in that order.

A. Construction

Fathers Kohler and Schocklee, the founders of BCIC, persuaded local businessmen, bankers, etc. to donate $100,000 for the establishment of a revolving fund.

BCIC bought homes from absentee landlords for about $1,500 per house; hired local contractors to rehabilitate them for about $5,000 per house. The prior construction experience of its program director enabled BCIC to act as its own general contractor and thus to effect some savings in these operations. Local

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Data Compiled from:
1967 Senate Housing Subcommittee Hearings
An unpublished manuscript by John McClaughry
M.I.T. Masters thesis by Jody Newman

community people were employed at first but such efforts were not found effective.

The houses were usually semi-detached or row houses in a nine block area. Seventy-five units have been completed to date.

In 1966 OEO made a $101, 830 demonstration grant to BCIC to cover its administrative expenses.

B. Ownership Transfer

At first due to the lack of appropriate FHA insurance sections, the houses were sold according to the following arrangements.

(1) The Pulaski Federal Savings and Loan made a maximum 80 percent fifteen-year mortgage at 6 percent interest.

(2) "BCIC borrowed the remaining 20 percent from the American National Bank and deposited it in a savings account with Pulaski Federal, to be held in escrow until 20 percent of the mortgage (which is due it as seller anyway) is paid off, which is in about seven years."[1]

After FHA Section 221(h) was enacted however, the following plan was followed.

"May 24, 1967, FHA announced that FNMA funds had been reserved for five units totalling $49, 500 under the new Section 221(h) program. This will provide 3

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1. Quotation from John McClaughry, page II - 4.

percent twenty-year FHA mortgages to the lower income buyers with no downpayment aside from the customary closing costs."[2]

The first fifty houses were done under conventional financing and the last ten under Section 221(h). Note that the houses built under FHA 221(h) cost more to rehabilitate, around $8,000, due to stricter FHA standards.

The final selling price of houses ranges from $7,000 (conventional) to $9,500 (FHA). FHA closing costs are around $200; conventional aroung $250. Conventional monthly costs to homeowners (principal, interest, insurance, etc.) $60 per month; $64, FHA. FHA gives twenty-year, 3 percent mortgages as opposed to the fifteen year, 6 percent conventional mortgages.

C. <u>Ripening</u>

"In the first fifty houses, the family purchased the house as soon as it took occupancy. Experience showed, however, that a trial period as a renter was advantageous from the point of view of both BCIC and the family, and for the past twenty-five houses, including the ten financed by Section 221(h), the family has lived

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2. John

as a renter for a year. . . . The rent money during this year is used to make the monthly mortgage payments of principal, interest, insurance and taxes just as if the family were the owner, so that the mortgage is amortized slightly by the time it is assumed by the family."

D. Social Services

Among the many services that BCIC provides to its homeowners are adult education programs, a neighborhood meeting place, a community newspaper, a credit union, a pre-school, consumer education and homemaker skills programs, and job placement programs.

SUMMARY SHEETS FOR

I Project Description

1) Name of Sponsor or Developer Jan T. Dykman, Secretary
Address BCIC

2) Cooperative ___ Condominium ___ Single Ownership _x_
New Construction __ Rehabilitation _x_

3) Number of units total ___ Number of units completed so far _75_

4) Type of structures: one-family ___ two-family ___ three-family ___
(and how many)

How many one-bedroom ___ two-bedroom ___ three-bedroom ___
Other ____

5) Total cost $7000 - $9500 per unit

6) When was project begun _1964_ when was project completed ________

7) Description of neighborhood:

II Construction Phase

A. Land Acquisition
1) agency acquiring land _BCIC_
2) cost of land _$1500_
3) current availability of similar land __________

B. Development Financing
1) construction loan ___ interest ___ loan to value ratio: _________
2) FHA 221(h)_ Conventional _x_ (see next page)
3) Bank _____ Type _Savings_ Pulaski Federal Savings & Loan
4) source of working capital _$100, 000_
5) profit ________

III Ripening
1) tenant selection criteria ______
2) income level _______
3) monthly housing cost ________
4) subsidy ________
5) length of ripening _1 year_
6) equity _accumulation by tenant_

7) proceuure in case of default

8) profits to manager __________

IV <u>Permanent</u>

A. <u>Financing of Ownership Transfer</u> FHA 3% 20 years
   1) mortgage <u>FHA $9500 conv. $7000</u> interest <u>conv. 6% 15 years</u>
   2) FHA <u>x</u> Conventional <u>x</u>
   3) Bank ________ Type ______ FHA $200
   4) Down payment <u>FHA none</u> Closing costs conv. $250 source _____
   5) sweat equity <u>tried at first then discontinued</u>
   6) monthly housing costs FHA $64 conv. $60
   7) subsidy __________

B. <u>Management</u> Final sale price $7000 - $9500
   1) homeowner's property control

   2) procedure on sale

   3) procedure on default
      standard procedure - BCIC helps families get out of mortgage

C. <u>Social Services</u>
   1) list services provided
      adult education
      community newspaper
      credit union
      pre-school
      job placement

   2) how are such services financed

V <u>Comments</u>
At first a conventional financing scheme was followed; later use was made of Sec. 221(h)

APPENDIX C

ECONOMIC PROFILE TABLES

TABLE I

INCOME DISTRIBUTION OF RESIDENT POPULATION 1964

Income	Model Cities Area
$ 0 - 3999	20
4000 - 4999	31
5000 - 5999	15
6000 - 6999	10
7000 - 7999	14
10,000 plus	10
	100%

Source: ABCD Model City Proposal (Data obtained from a survey by Wilbur Smith & Associates, 1963-4, for the Boston Regional Planning Project)

TABLE II

COMPARISON OF INCOME DISTRIBUTIONS 1964-1967

<table>
<tr><th>Income</th><th>1964 Model Cities Area</th><th>1964* Subarea</th><th>1967 Survey</th></tr>
<tr><td>$ 0 - 3999</td><td>20</td><td>18</td><td>27</td></tr>
<tr><td>4000 - 4999</td><td>31</td><td>29</td><td>30</td></tr>
<tr><td>5000 - 5999</td><td>15</td><td>15</td><td rowspan="2">23</td></tr>
<tr><td>6000 - 6999</td><td>10</td><td>10</td></tr>
<tr><td>7000 - 9999</td><td>14</td><td>13</td><td rowspan="2">20</td></tr>
<tr><td>10,000 plus</td><td>10</td><td>15</td></tr>
<tr><td></td><td>100%</td><td>100%</td><td>100%</td></tr>
</table>

* ABCD subarea ""H"" incorporates the 1967 HII survey area.

** We are not sure whether the downward shift in income distribution between 1964-7 was caused by increasing unemployment or out-migration of middle and upper income families. There are indications that household mobility has been high in the Model Cities Area. The recent MCA household survey, when analyzed, will provide more exact information on this point.

Sources: ABCD Model City Proposal (Data obtained from a survey by Wilbur Smith & Associates, 1963-4, for the Boston Regional Planning Project); Survey for Housing Innovations, Inc., conducted by the New England Community Development Corporation (NECDC).

TABLE III

HOMEOWNER SHELTER COSTS AS A PROPORTION OF CURRENT EXPENDITURES AND INCOME BEFORE TAXES: 1960 - 1961*

Gross Income	Percentage of Current Consumption	Percentage of Gross Income
Less than $1000	34.1	-----
$1000 - 2000	29.5	36.0
2000 - 3000	23.5	26.0
3000 - 4000	22.0	22.0
4000 - 5000	18.0	17.0
5000 - 6000	19.0	16.0
6000 - 7500	18.0	15.0
7500 - 10,000	16.0	13.0
10,000 - 15,000	16.0	11.0
15,000 plus	15.0	8.0

* The comparison of the percentage figures in the columns under current consumption (proportion of total annual expenditures spent on shelter) and gross income (proportion of total income spent on shelter) points to the importance of savings for low income families. Low income families must depend on savings to pay current expenses. For both columns, the numerator, total shelter costs, remains the same at each income level. The denominators at each income level are different. Current consumption is usually a major portion of (and therefore smaller than gross income, the remainder going to taxes and savings. Since gross income is normally greater than current consumption (expenditures), the percentage of gross income spent on shelter costs should be less than the percentage of current expenditures spent on shelter costs. This holds true for all income classes above $4000. Below $4000, the percentage of gross income spent on shelter exceeds the percentage of current consumption (expenditures). This means that the amount spent by the low income family on current expenditures exceeds the gross income earned. This can only occur when the family draws upon savings and/or receives transfer payments (e.g., welfare subsidies) which are not considered as part of gross income.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Survey of Consumer Expenditures, 1960-61: Consumer Expenditures and Income, Urban United States, 1960-61. (BLS Report 237-38, 1964) p. 76.

TABLE IV

ANNUAL COSTS OF THE CITY WORKER'S FAMILY BUDGET BY MAJOR COMPONENTS, AUTUMN 1966*

Item	Metropolitan, U.S.			Boston		
		Proportion of Total				
	Cost	Budget	Consumption	Cost	Budget	Consumption
Food	2173	23	28	2317	22	28
Housing	2457	26	32	3018	29	36
Shelter**	1978	21	(26)	2531	(24)	(30)
House furnishings	266	3	(3)	260	(3)	(3)
Household operations	212	2	(3)	227	(2)	(3)
Transportation	815	9	11	812	8	10
Clothing	767	8	10	756	7	9
Personal Care	218	2	3		7	
				210	2	3
Medical Care	481	5	6	471	4	6
Reading	70	1	1	73	1	1
Education	60	1	1	60	1	1
Others (Recreation, tobacco, misc.)	604	6	8	613	6	7
Cost of Family Consumption	7643		100%	8331		100%
Other costs	419	4		438	4	
Gifts and Contributions						
Life insurance						
Occupational expenses	80	1		80	1	
Social Security & Disability payments	291	3		277	3	
Personal taxes	1155	12		1379	13	
Cost of Budget	9588	100%		10505	100%	

* The budget was designed to represent the estimated cost required to maintain this family at a level of adequate living - to satisfy prevailing standards of what is necessary for health, efficiency, care of children, and participation in community activities. This is not a subsistence budget, nor is it a luxury budget; it is an attempt to describe and measure a modest but adequate standard of living. (p. 3)

** Shelter includes interest and principal payments, plus taxes; insurance on house and contents; water, refuse, disposal, heating fuel, gas, electricity and specified equipment; and home repair and maintenance costs.

Source: U.S. Department of Labor, Bureau of Labor Statistics, City Worker's Family Budget for a Moderate Living Standard, Autumn 1966 Bulletin No. 1570-1.

TABLE V

PROPORTION OF TOTAL CONSUMPTION SPENT ON SELECTED ITEMS, NORTH-EAST 1960 - 1961

Income	Food	Shelter	Utilities	Clothing	Medicine	Education	Transportation
less than $1000	26.9	20.2	13.9	4.1	7.7	.0	7.4
$1000 - 2000	29.8	15.7	13.8	4.7	9.7	.2	7.4
2000 - 3000	29.3	12.9	10.6	5.9	9.1	.2	11.1
3000 - 4000	25.6	11.8	10.1	7.4	9.3	.4	11.6
4000 - 5000	27.1	10.8	7.5	8.8	6.1	.5	16.2
5000 - 6000	26.7	11.7	7.0	8.6	6.7	.6	15.6
6000 - 7500	26.1	11.7	6.3	11.0	6.1	1.2	14.3
7500 - 10,000	25.3	10.9	5.5	10.7	5.6	1.4	17.3

Source: Department of Labor, Bureau of Labor Statistics Survey of Consumer Expenditures, 1960-61: Consumer Expenditures and Income, Urban United States, 1960-61 (BLS Report 237-38, 1964)

TABLE VI

FAMILY SAVINGS BY INCOME LEVEL, 1962

Family Income	Net Worth*
$0 - 3999	$1330
$3000 - $4999	1738
$5000 - $7499	1716
$7500 - $9000	2722
$10,000 plus	4233

* Net worth = tangible assets (home, auto) plus business profession plus life insurance plus annuities plus retirement plan plus liquid assets plus investments plus miscellaneous - personal debt.

Liquid assets = checking accounts plus savings accounts plus shares in savings and loan associations and credit unions plus U.S. Savings Bonds.

Source: "Survey of Financial Characteristics of Consumers," Federal Reserve Bulletin (March 1964).

TABLE VII

FAMILY SAVINGS BY AGE OF HEAD

Age of Head	Savings 1962*
Less 25	$ 266
25-34	647
35-44	1556
45-54	2563

* For families with income below $7500 savings are slight. These figures are mean values. Unfortunately, the distribution of family savings within each income group is not known.

Source: "Survey of Financial Characteristics of Consumers," Federal Reserve Bulletin (March 1964).

TABLE VIII

CHANGES IN NET WORTH, 1962-1963

Income	Saved				Saved or Dissaved	Dissaved			
	$10,000 plus	$5000-10,000	$1000-5000	$100-1000	Less than $100	$100-1000	$1000-5000	$5000 plus	Total
$0-$3999	-	-	5	23	41	23	6	1	100%
3000-4999	2	1	19	39	17	15	7	1	100%
5000-7499	1	1	35	37	9	11	5	1	100%
7500-9999	3	2	54	27	4	6	2	2	100%
10,000-14,499	3	9	54	17	5	6	2	2	100%

Note: Net worth equals assets minus personal debts. To dissave is to reduce the family's net worth between 1962 and 1963. Savings increases the net worth of the family over the same period of time. Although this nationwide survey may not fully mirror the Model Cities Area residents, the implications are very clear. A larger proportion of lower income families tend to dissave.

Source: "Size and Composition of Consumer Savings," Federal Reserve Bulletin (January 1967).

TABLE IX

EXPRESSED DOWNPAYMENT ABILITIES BY MODEL CITIES RENTAL RESIDENTS WHO DESIRE HOME OWNERSHIP; BY SIZE OF DOWNPAYMENT AND INCOME LEVEL 1967

Income	Downpayment 0	Less $500	$500-$1000	$1000-$3000	$3000 plus	
0-$4000	78	22	-	-	-	100%
$4000-$5000	80	20	-	-	-	100%
$5000-$6000	60	20	20	-	-	100%
$6000-$7000	25	25	50	-	-	100%
$7000 plus	14	43	14	14	14	100%
Frequency Table of observations						
$0-$4000	40	12	-	-	-	
$4000-$5000	9	2	-	-	-	
$5000-$6000	7	3	2	-	-	
$6000-$7000	2	2	5	-	-	
$7000 plus	2	7	3	2	2	
				Total		100%

Source: Computed from the HII Survey, conducted in 1967. (See Table II.)

APPENDIX D

OWNERSHIP PATTERNS IN BOSTON 1960 OF MODEL CITIES AREA AND COMPARABLE WHITE AREAS

Census Tract	% of units per structure 1	2	3-4	5 plus	% owned occupied	% of total home-owners who are black	% total pop. black
In Model Cities Area							
P3	11	22	57	11	26	3	7
P4	7	15	66	13	22	15	17
P5	14	20	62	5	22	38	50
P6	14	13	45	28	26	3	2
Q1	5	1	85	9	18	0	2
Q2	4	4	44	48	6	20	21
Q3	7	5	28	61	16	38	33
Q4	19	4	65	11	20	12	15
Q5	10	22	68	-	21	9	12
R1	7	4	57	33	8	97	95
R2	12	8	70	10	14	44	54
R3	32	5	30	33	6	67	83
S2	6	2	10	82	6	1	2
S3	10	9	75	6	19	25	30
T6	-	15	66	19	16	71	81
T7a	1	15	49	35	15	40	31
T7b	3	22	46	30	21	25	23
T8a	3	9	47	42	18	7	4
U1	14	13	49	24	22	58	63
U3	19	17	52	12	18	47	51
U4	32	14	44	10	20	66	58
U6a	6	17	41	36	23	81	81

In Model Cities Area							
V1	35	5	35	25	14	18	17
V6	7	10	76	7	26	2	2
In Comparable White Areas							
T1	7	8	29	56	14		9
T2	10	16	74	4	37		-
T3a	6	8	60	26	30		-
T3b	10	15	66	9	32		-
T4a	5	14	69	12	27		-
T4b	5	14	80	1	33		-
T5a	7	20	70	3	33		-
T5b	10	19	56	15	33		1
%8b	10	2	64	7	33		4
T9	11	28	54	6	37		-
T10	14	34	31	5	48		-
X4a	6	19	61	14	34		1
X5a	7	23	57	13	21		1
X5b	15	18	62	11	27		-
X5c		27	47		37		1

Note: The percentage of owner occupied units is consistently higher in the comparable white tracts than in the model cities area tracts.

In the Model Cities area tracts, the percentage of black owner occupied units to total owner occupied units is almost always less than the percentage of black households to total tract households.

Source: U.S. Censuses of Population and Housing: 1960 Boston, Mass. Standard Metropolitan Statistical Area. PHC(1)-18

APPENDIX E

TABLE I

PRIVATE SOCIAL SERVICE AGENCIES IN THE CITY OF BOSTON[1]

Program	People Served Total	People Served Boston	Size of Professional Staff	Budget	Per Capita Expenditures	Agencies in or near Model Cities Area
I Housing and Environmental Improvement Programs						
A. Home Improvement or instruction in making home repairs & improvements						
City Total (1)	figures not available					1
B. Relocation Survey						
City Total (3)	1500	1302	42	$92,000	$61.33	1
C. Construction Operation of Housing for Low & Middle Inc. Gps.						
City Total (2)	100	99	4	******	******	
D. Rehab. of Existing Housing for Low & Middle Inc. Gps.						
City Total (3)	200	99	1	******	******	1
E. Neighb. Maintenance Improvement or Development						
City Total (2)	800	772	4	******	******	0

Program	People Served Total	People Served Boston	Size of Professional Staff	Budget	Per Capita Expenditures	Agencies in or near Model Cities Area
II Health Services Programs						
A. Health Education						
City Total (5)	6100	3359	39	$62,000	$10.16	0
B. Environmental Planning						
City Total (0)						
C. Comprehensive						
City Total (2)	2200	2183	4	*******	******	1
III Social Services Programs						
A. Legal Services						
City Total (10)	9000	6385	116	$956,000	$106.22	2
B. Consumer Education and Financial Counseling						
City Total (1)	300	285	2	*******	******	0
C. Credit Union	Figures not available					
D. Cooperative Enterprise (In economic Sense)						
City Total (3)	1500	1433	14	*******	******	1
E. Social Service Counseling to Family, Individuals, Gps.						
City Total (42)	33,800	22,887	611	$4,700,000	$139.05	6
F. Home Management Instruction or Homemaker Assistance						
City Total (3)	1900	1333	10	$338,000	$177.89	0

Note: See p. E-3 for notes to Table I.

1. Total of 345 responses by private agencies in the City of Boston.

2. Areas in or near MCA: Roxbury-North Dorchester, Jamaica Plain, Dorchester Target (ABCD Definitions)

3. Number in bracket refers to the total number of agencies in Boston that provide the particular service.

****** Data not available or presented due to disclosure

Source: ABCD Survey 1967-68, Planning & Evaluation Department Program Resources Survey

TABLE II

PRIVATE SOCIAL SERVICE AGENCIES IN CITY OF BOSTON RESPONDING TO THE ABCD SURVEY 1966-67

I. Housing and Environmental Improvement Programs

A. Comprehensive
1. Interfaith Housing Corporation
2. North End Union

B. Relocation Service
1. Roxbury Multi-Service Center
2. Fair Housing, Inc.

C. Construction or Operation of Housing for Low or Middle Inc. Groups.
1. Morgan Memorial Inc.
2. Housing Innovations, Inc.

D. Rehabilitation of Existing Housing for Low or Middle Inc. Groups
1. Tiecherman Memorial Housing Corp.
2. South End Community Development Corporation
3. Housing Innovations, Inc.

E. Neighborhood Maintenance, Improvement, or Development
1. Harriet Tubman House
2. South Bay Neighborhood Center

II. Health Service Programs

A. Health Education
1. Bunker Hill Clubhouse
2. South Boston Clubhouse
3. Greater Boston Council on Alcoholism
4. Mass. Association for Mental Health
5. Dorchester YMCA

B. Environmental Health: Improving Health by Altering Environmental Conditions None

III. Social Service Programs

A. Legal Service
1. Boston Legal Aid Society
2. Charlestown Legal Aid Society
3. Roxbury Legal Aid Society
4. South Boston Legal Aid Society
5. South End Legal Aid Society
6. Roxbury Multi-Service Center
7. Young Women's Christian Association
8. Fair Housing, Inc.
9. Voluntary Defenders Committee, Inc.
10. Mass. Correctional Association

B. Consumer Education and Financial Counseling
1. Associated Day Care Service of Boston

C. Cooperative Enterprise (in the economic sense)
1. Roxbury Club House
2. Harriet Tubman House
3. Cooper Community Center

D. Home Management Instruction or Homemaker Assistance
1. Family Service Association of Greater Boston
2. Fair Housing, Inc.
3. Laboure Center of Sisters of Mercy

E. Social Service Counseling: Families, Individuals or Groups
1. Associated Day Care Service of Boston
2. Boston Children Service Association
3. Catholic Charitable Bureau of Boston
4. Cuban Refugee Center
5. Children's Mission to Children, Inc.
6. Crittenton Hastings House
7. Family Counseling and Guidance Centers
8. Family Service Association of Greater Boston
9. Dorchester House
10. Jamaica Plain Neighborhood House, Martha Elliot Family Health Center
11. Greater Boston Council on Alcoholism
12. John F. Kennedy Family Service Center
13. Judge Baker Guidance Center
14. Mass. Association for the Blind
15. Mass. Society for the Prevention of Cruelty to Children

16. New England Home for Little Wanderers
17. North End Union
18. Robert Gould Shaw House
19. Roxbury Neighborhood House
20. Roxbury Multi-Service Center
21. Society of St. Vincent de Paul
22. South Boston Neighborhood House
23. Harriet Tubman House
24. Shawmut Neighborhood Center
25. Rutland Neighborhood Center
26. Older Adult Day Center
27. Huntington Ave. YMCA
28. Catholic Guild for the Deaf
29. Spanish Speaking Center
30. Boston Center for Blind Children
31. City Missionary Society
32. Ellis Memorial Settlement House
33. Emmanuel House
34. Laboure Center of Sisters of Mercy
35. Lutheran Association for Workers of Mercy
36. Brook Farm Home
37. Family Service Bureau
38. Mens Rehabilitation Center
39. In-migrant Domestic Program

Source: ABCD Survey 1967-68, Planning and Evaluation Department, Program Resources Survey

APPENDIX F

THE HOUSING AND URBAN DEVELOPMENT ACT OF 1968: A SUMMARY OF PROVISIONS RELEVANT TO HOME OWNERSHIP

This is an analysis of the provisions of the 1968 Housing Act, which seeks to point up its strength and weaknesses. It covers only those sections which have some impact on home ownership. It is essential to note that Congress has not yet passed the appropriations bill; until it does, most of the new Act will remain in limbo.

1. Section 235

   A. This program authorizes HUD to make payments to mortgagees on behalf of qualified mortgagors. It applies to: (1) single-family houses

   (2) two-family houses

   (3) one-family units in condominiums.

   B. The maximum mortgage amounts are:

   $15,000 for a single-family (or condominium unit)--$17,500 in a high-cost area

   $17,500 if there are five or more persons in family--$20,000 in high-cost areas

   $24,000 for two-family houses.

C. Mortgagor's downpayment:

low income: people whose incomes are less than 135% of maximum income ceiling for admission to public housing in the Area: minimum of $200.

others: at least 3% of the estimated cost of acquisition.

D. Income restrictions on mortgagor:

At least 80% of funds appropriated must go to families whose incomes, at the time of the initial occupancy of section 235 housing, are 135% of the maximum income admission limits of public housing in the area.

But in no case shall the incomes of families, at time of initial occupancy of sec. 235 housing, be in excess of 90% of the income limits prescribed for 221(d)(3) BMIR.

E. Section 235 is analyzed in the following paper, reprinted with the permission of the author.

Section 235 of the National Housing Act: Who Does It Serve? by Robert Schafer.

The Housing and Urban Development Act of 1968 added section 235 to the National Housing Act. This new section was designed to assist low income families in the purchase of their own homes. It provides assistance in the form of payments to mortgagees on behalf of mortgagors. This form was adopted to encourage private money sources to extend funds for such housing as opposed to public sources under section 221(h) below market interest rates. The payments are available to new or substantially rehabilitated housing and, to a limited extent existing housing in standard condition. This article will probe the extent of meaningful assistance provided by this new legislation.

Under section 235 the Secretary of Housing and Urban Development will pay to the mortgagee the lesser of the following two amounts:

(a) the difference between the sum of the monthly payment for principal, interest, taxes, insurance and mortgage insurance premium and 20% of the mortgagor's income; or

(b) the difference between the sum of the monthly payment for principal, interest and mortgage insurance premium, and the monthly payment for principal and interest which the mortgagor would be obligated to pay if the mortgage were to bear interest at the rate of one percent per annum.

The effect of these payments on the percentage of annual gross income paid by the mortgagor for housing costs is investigated for a 40 year[1] mortgage bearing an

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1. The maximum mortgage term can vary from 30 to 40

interest rate of 6 3/4% with the 1/2% FHA mortgage insurance premium. The sale price of a single family house is assumed to be $15, 200. For persons whose incomes are less than 135% of the maximum income limits for admission to public housing in the area, [2] the downpayment can be $200 and the mortgage amount $15, 000. [3] Table A itemizes all the costs associated with home ownership. Note that several items do not appear in the section 235 payment formula. The figures in Table A are typical of costs on housing located in the Boston Model Cities Area.

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years depending on the characteristics of the mortgagor. The maximum term was selected for this paper to give the mortgagor his lowest annual cost.

2. The maximum income limits after exemptions for admission to public housing in Boston, Massachusetts are:

Number of persons in family	General	Special (families displaced by public action)
1	4200	5040
2	4600	5520
3	5200	6240
4	5700	6840
5	5900	7080
6	6100	7320
7 or more	6300	7560

3. The maximum mortgage amounts under section 235 are: 15, 000 (17, 500 in high cost areas) for single family houses; 17, 500 (20, 000 in high cost areas) for single-family houses where the mortgagor's family contains five or more persons.

Table A

Housing Costs (monthly)

Payment for mortgage, interest and mortgage insurance premium	96
Heat	17
Gas and electricity	7
Mortgage insurance against death of mortgagor	4
Fire and hazard insurance	8
Maintenance and reserve	25
Sewer and Water	3
Real estate taxes	20
Total	180

Clause (a) of the section 235 payment formula calls for the sum of payments for principal, interest, mortgage insurance premium, taxes and insurance; this sum is 128 per month for the situation depicted in Table A. Consequently $52 of monthly housing costs are excluded from the formula. Areas of the country having warm, mild climates are not greatly affected by this exclusion because the climate reduces heating and maintenance costs to trivial amounts. The following tables compare the percentage of annual gross income contributed towards total housing costs of $180 per month and $150 per month, with and without section 235 assistance, as a function of income.

Table B

Percentage of Income towards total Housing

Costs Without Section 235 Assistance

Annual Gross Income After Statutory deduction of $300/minor[4]	Percentage of income towards Total Housing costs of 180/mo.	150/mo.
3000	72%	60%
3600	60	50
4200	51.5	43
4800	45	37.5
5400	40	33.3
6000	36	30
6600	32.8	27.3
7200	30 plus	25
7800	28	23.1

4. No less than 80% of the families receiving section 235 mortgage insurance must have had incomes at the time of initial occupancy which did not exceed the maximum incomes for admission to public housing in the area. In no case shall the incomes of families receiving section 235 mortgage insurance exceed 90% of the limits prescribed for section 221(d)(3) below market interest rate mortgage beneficiaries.

Table C

Percentage of Income Towards Total Housing

Costs With Section 235 Assistance

Annual Gross Income After Statutory Deductions of $300/minor	Amount of Section 235 Payment	Percentage of income towards Total Housing Costs of	
		$180/mo.	$150/mo.
3000	58	49%	36.8%
3600	58	41	30.7
4200	58	35	26.3
4800	48	33	25.5
5400	38	31.6	24.9
6000	28	30.4	24.4
6600	18	29.5	24.0
7200	8	28.7	23.7
7800	0	28	23.1

Two conclusions can be drawn from Tables B and C. First, in areas with higher housing costs ($180/mo.) section 235 does not reduce the homeowner's financial burden to 25% of annual gross income. Twenty-five percent is selected because there is some indication that Congress excluded heat, maintenance and the other items hoping that the percentage of income towards total housing costs would approach 25. Second, for the 4200 through 7800 income group section 235 payments bring the percentage down to approximately 25 in lower cost areas. Therefore the design of the payment formula inherently favors warm, mild climates. Because of the section 235 formula it is improbable that any new or rehabilitated housing will be constructed in the Northern sections of the country.

Consider the impact of a revision of clause (a)

of the formula to include those housing cost items which it now excludes. Table D presents the results of such a variation.

Table D

Percentage of Income Towards Total Housing Costs With

revised section 235 Assistance

Annual Gross Income After Statutory Deduction of $300/minor	Amount of 235 Payment	180/mo.	Amount of 235 Payment	150/mo.
3000	58	49%	58	37.2
3600	58	41	58	31
4200	58	35.2	58	26.6
4800	58	30.8	50	25
5400	58	27.4	38	25
6000	55	25	25	25
6600	43	25	13	25
7200	30	25	0	25
7800	18	25	0	23.1

The revision does not alter the basic impact on lower cost areas but it does make the statute a viable housing tool for families in the $5400 through $7800 income levels in high cost areas. The remaining difference between income levels served by section 235 in the two areas may be due to variations in the cost of living. At least the revised statute does not artificially accentuate such variations. In order to reach lower income families a payment that reaches to zero percent loans or that includes partial payment of principal would be needed. Congress has not yet indicated a willingness to give serious consideration to legislation along those lines.

In conclusion section 235 is a start; it will benefit low income families in some parts of the country. But it should be altered to provide more equal geographical distribution of benefits.

F. Two-Family Houses

It is unlikely that one could build a new two-family home for $25, 000, but it might be a reasonable rehabilitation cost. The scarcity of two-family units in Boston, and a rehabilitation cost of $25, 000, might encourage the conversion of 3-family houses to two-family units. Two problems are present with regard to the two-family house: (1) Is the 235 subsidy limited to costs attributable to one unit? (2) Will the income from renting the second unit be added to the mortgagor's income for purposes of qualification for Section 235? This question seems inappropriate because the income limits of Section 235 apply only at initial occupancy, at which time the applicant-mortgagor would not have income from the second unit.

2. Section 237 of the National Housing Act. This section is designed to make certain FHA mortgage insurance programs available to families who are not acceptable credit risks. It allows HUD to insure mortgages for such families, for reasons of credit history, irregular

income patterns or other factors, _if_ HUD finds that such a mortgagor would be a "reasonably satisfactory" credit risk when provided budget, debt management and related counseling. Preference is given to families living in public housing units, especially those required to leave because of increases in income. The benefits of this section are restricted to sections 203, 220, 221, 234 and/or 235(j) of the National Housing Act. They are also limited to single-family homes. The principal obligation of the mortgage must be less than $15,000 ($17,500 in high-cost areas).

The Secretary of HUD can contract public or private agencies for the provision of the counseling services.

Section 237 will be activated immediately, except in specified communities where the Secretary must first determine that adequate counseling service is available.

3. Section 223(e) of the National Housing Act. This section allows HUD to insure mortgages on property located in declining urban areas, provided the Secretary finds that (1) the area can be made adequate to house low and moderate income families and (2) the property is an acceptable risk in view of such

consideration. This is effective immediately.

4. Section 238 - Special Risk Insurance Fund - Sections 235, 237, 223(e) and 236 will operate out of this fund. It "is not intended to be actuarially sound." Senate Report No. 1123 (on S. 3497) (May 15, 1968), p. 133.

5. Sections 221(i) and (j) of the National Housing Act. These new subsections permit the conversion of any project insured under section 221(d)(3) BMIR to a plan of family unit ownership: condominium or cooperative. The Secretary of HUD is authorized, upon the application of a mortgagee, to insure the purchase of individual units in a condominium. The interest rate may be as low as 3%. The mortgagor must have an income within the limits prescribed by the Secretary for section 221(d)(3) BMIR. The minimum investment (downpayment) is 3%. The Secretary also is authorized to insure cooperative mortgages financing the purchase of the properties upon transfer to cooperative ownership.

The major problem seems to be finding a mortgagee who will take a 3% mortgage; GNMA does not seem to have been properly amended to require it to purchase such mortgages. The President can solve this by an appropriate order. Without GNMA

purchase commitment, no mortgagee will touch these mortgages. Therefore no program.

6. Section 106 of the Housing and Urban Development Act of 1968.

   This section authorizes the provision of information, advice and technical assistance to nonprofit organizations of housing for low and moderate income families. Perhaps this could be used to ease the processing of FHA mortgage insurance and other assistance programs.

   This section also authorizes the Secretary of HUD to make loans to nonprofit organizations for necessary pre-construction expenses (planning, obtaining financing, architects, land options, engineering surveys, application and mortgage commitment fees, construction loan fees and discounts); the maximum loan is 80% of the reasonable costs.

7. Section 107 of Housing and Urban Development Act of 1968. This section creates the National Home Ownership Foundation. It will provide technical and limited financial assistance to public and private organizations desiring to provide housing and home ownership for lower income families. It will be able to provide grants and loans to cover organizational

and administrative expenses, necessary pre-construction costs and the cost of initiating counseling services to low income families. To a limited extent the last item overlaps section 237 of the National Housing Act, above.

8. Section 108 of the HUD Act of 1968. This encourages the development of new housing techniques. Section 233 of the National Housing Act is amended to authorize HUD insurance of mortgages on properties approved by the Secretary for such development. The section authorizes the use of federal land for these purposes. The Secretary cannot approve more than five plans under this section.

9. Section 109 of the HUD Act of 1968 -- Insurance Protection of Homeowners. This section requires HUD to produce a plan for an insurance program to assist homeowners in meeting mortgage payments in times of personal economic adversity (death, disability, illness, unemployment). Congress asked for an actuarially sound program.

10. Section 110 of the HUD Act of 1968 -- National Advisory Commission on Low Income Housing. The Commission is to study the resources and capabilities in the public and private sectors of the economy which may

be used to fulfill the goal of "a decent home and a suitable environment for every American family."

11. Section 201 of the HUD Act of 1968 adds new section 236 to the National Housing Act. This section provides payments by HUD to mortgagees on behalf of mortgagors in rental projects, including cooperatives. It is designed to phase out section 221(d)(3) BMIR. The payments equal the difference between payments on a market interest rate mortgage plus the FHA insurance premium and payments on a one-percent mortgage. There are several problems. The major one is that there may be insufficient incentive for banks to issue section 235 mortgages; these mortgages carry 40-year terms, and the banks are likely to avoid them when the interest rate is only 6 3/4%. The 2% service charge will be spread over 40 years and hence will not serve the function it does in section 221(d)(3) BMIR loans. Since BMIR loans are in the bank's hands for only one year or less, the service charge provides the bank with an effective rate of return of 9 percent or more. Another problem with section 236 stems from the requirement that the tenants contribute at least 25% of their income for rent. This will serve a narrower market than

section 221(d)(3) BMIR, where the figure was 20%.

12. Section 202. (a) It increases the authorizations for rent supplements.

    (b) It expands the definition of "housing owner" to encompass nonprofit entities, limited dividend entities, or housing cooperatives which own rental or cooperative housing financed under a state or local program.

13. Section 204 authorizes the Secretary of HUD to enter contracts with local housing authorities (BHA) for the purpose of upgrading "tenant services." It calls for the "maximum feasible participation" of the tenants.

14. Section 205. Prior to this amendment local housing authorities (BHA) could sell only "detached or semi-detached" units to tenants for individual ownership. Now they can sell any units which are "sufficiently separable."

15. Section 208. This amends section 23 of the Housing Act of 1937. It empowers local housing agencies (BHA) to purchase dwelling units leased to low income persons under section 23, for the purpose of reselling the dwelling(s) to the tenant(s). In addition, the local agency (BHA) can defer downpayment and eliminate or adjust the interest payments for a temporary

period, and can include such terms and conditions as may be necessary to enable the tenants to make the purchase without undue financial hardship.

16. Section 209 provides additional HAA subsidy for large families and families of unusually low income.

17. Section 302 adds new section 239 to the National Housing Act. It requires the Secretary of HUD to formulate regulations granting extensions of time for curing default on any FHA multi-family mortgage or for modifying the terms of such mortgage.

18. Section 303 amends section 234 of the National Housing Act to: (a) apply section 203(b) downpayment amounts to section 234 condominiums (b) permit blanket condominium mortgages on 4 or more units, instead of 5 or more, (c) permit section 234 insurance on individual units in 2- to 11-unit condominiums that have not been covered first by an FHA insured project mortgage.

19. Section 305 extends section 221(d)(2) of the National Housing Act for two- three- and four-family residences to all low and moderate income families. Formerly it was limited to displaced persons or families.

20. Section 309 expands FHA's experimental housing

program, section 223 of the National Housing Act, for use in connection with all FHA programs.

21. Section 311 amends sections 220 and 221(d)(3) of the National Housing Act to make FHA insurance under those sections available to multi-family properties in urban renewal areas which have been rehabilitated by local agencies. Section 220 is available to housing in urban renewal areas; section 221(d)(3) is available to low and moderate income families.

22. Section 315 extends the Secretary of HUD's power to vary the interest rate under certain FHA programs to new sections 235(j)(2)(c), 236(j)(4)(B), 240, 241 and 242.

23. Section 316 amends section 221(h) of the National Housing Act to: (a) permit the rehabilitation and sale of individual units in a multi-family structure; (b) permit the blanket mortgage to cover four or more units instead of the present five or more; and (c) permit the rehabilitation and sale of two-family houses.

Section 101 of the 1968 HUD Act empowers the Secretary of HUD to set the interest rate on 221(h) as low as 1%. The current minimum is 3%. But the Secretary must increase the interest to 3% when the family's income rises sufficiently. Note, however,

that it is not clear whether the 1% 221(h) would operate as the present 3% 221(h) or as the new section 235 1% mortgage insurance program. Under the latter it is doubtful that banks would choose to have their funds out for such a long period.

24. Section 501 of the HUD Act of 1968 institutes the neighborhood development programs. It is an urban renewal program in which the funds must be expended within one year of receipt.

25. Section 503 amends section 115 of the Housing Act of 1949 to increase the rehabilitation grant from a maximum of $1500 to one of $3000. In addition such grants are now available in any area in which the governing body has made a determination that a substantial number of structures are in need of rehabilitation, which has a workable program, and which is definitely planned for rehabilitation or code enforcement within a reasonable time. But this 1968 expansion only applies to owner-occupants of residential property. Prior to this amendment section 115 grants were restricted to urban renewal areas.

26. Section 504 amends section 110(c)(8) of the Housing Act of 1949 to remove the present limitation on the acquisition and rehabilitation of residential properties

by local urban renewal agencies.

27. Section 505 amends section 107 of the Housing Act of 1949 to make it clear that land may be disposed of for low as well as moderate income housing purposes.

28. Section 509 amends section 312 of the Housing Act of 1964 to authorize rehabilitation loans outside urban renewal areas. The conditions are similar to those for the expansion of section 115 grants, discussed above. These loans bear an interest rate of 3%. Section 312 is limited to persons whose incomes are within the maximum income limits of section 221(d)(3) BMIR for the local area. (This income restriction does not apply to urban renewal and code enforcement projects now receiving financial assistance under Title I of the Housing Act of 1949.)

29. Section 510 amends section 116(a) of the Housing Act of 1949 to authorize grants for the demolition of non-residential structures that actually or potentially harbor rats.

30. Section 512 amends section 105 of the Housing Act of 1949 to require that a majority of the housing units in each predominantly residential urban renewal project be for low and moderate income families, and that at least 20% of the total units in such projects be for

low income families. The Secretary of HUD has the power to waive the 20% restriction where it is not needed.

31. Section 515 amends section 117 of the Housing Act of 1949 to authorize the Secretary of HUD to make section 115 grants for rehabilitation through the utilization of local private non-profit agencies.

32. National Housing Partnerships. They are created to encourage private investors to provide low and moderate income housing. The National Partnership will provide staff, expertise, planning, management, leadership and prestige. It has borrowing power with governmental guarantees. The President has appointed 10 incorporators as required by the Act.

33. Section 1600 of the HUD Act of 1968 requires the President to submit a 10-year housing program to Congress by January 15, 1969.

34. Section 1702 amends section 314(a) of the Housing Act of 1954 to permit urban renewal demonstration grants to non-profit organizations. Prior to this amendment such grants were restricted to public bodies.

35. Section 1714 amends section 207 of the Housing Act of 1961 to permit studies of "self-help" in low income housing demonstration programs.

Appendix G Omitted

APPENDIX H

FEDERAL INCOME TAX

If we assume a 7 1/4% mortgage, the following table gives a rough approximation of the possible impact of tax savings on home ownership. For this Table real estate taxes are based on 15% of estimated gross rent. To arrive at the real cost of housing the tax saving should be subtracted from the monthly cost of housing. The table attempts to give the reader an estimate of the impact of tax saving on income levels by converting the saving into gross income figures. Note that in the case of the two- and three-family houses the owner-occupant will need to use almost all, if not all, of the tax deductions to protect the income the rental units give him. With public housing leasing, the rents under these proposals could be $200 per month per unit, or $2,400 per year. Tax savings are due only to deductions available to the owner against his non-rental income.

YEARLY FIGURES

Type of House	Construction Cost	Building Costs	Real Estate Taxes	Interest Payment Year 1 203(b)	Yearly deductible expenses on rental units	Depreciation Straight Line (30 years)	Total Deductions	Gross Income from Rental Units	Tax Saving (18% tax bracket)	Reduction in Gross Income 20%	Reduction in Gross Income 25%
Single-family	15,000	13,000	300	1,060	-	-	1,360		245	1230	980
Two-family	18,000	12,000	600	1,250	720	200	2,770	2,000	140*	600	560
Three-family	27,000	18,000	660	1,760	1440	400	4,260	3,500	135*	575	540

* The owner must have at least $700 of taxable income without above deductions in order to take full advantage of this hypothetical tax-saving computation.

APPENDIX I

CONDOMINIUMS AND COOPERATIVES

This appendix discusses the main characteristics of condominiums and cooperatives from the point of view of the lender, developer and homeowner. The relative merits of the two forms of tenure are examined.

I. Definition

In the case of a cooperative the property is owned by a corporation, and the "cooperators" own shares of stock in the corporation. Each "cooperator" has a lease to an apartment in the building or complex of buildings; he does not own his apartment. The corporation owns and manages the apartments (as landlord) and the common areas. The corporation holds the mortgage--a single one on all the property. The stock entitles the holder to a voice in the management via direct vote or election of directors and entitles him to the lease.

In the case of a condominium each participant owns his own apartment outright plus an undivided interest in the common areas and facilities. Each owner carries the mortgage on his own unit; a default by his neighbor does not hurt him except perhaps in relation to the common areas. In Massachusetts a corporation,

trust or unincorporated association may be formed to manage the common areas and facilities and to regulate the rights of the owners under the master plan and the by-laws of the organization of unit owners. See Schwartz, Condominium: A Hybrid Castle in the Sky, 44 B.U.L. Rev. 137, 138 (1964).

II. Condominiums in Massachusetts

Until the passage of a state statute in 1953, the rights and obligations of persons (lenders, developers, builders and owners) involved in a condominium were so murky and undefined that no lending institution would provide mortgage money on a condominium. The 1963 statute clarifies most of the rights of persons involved and seems to have attracted the interest of at least a few banks.

Under the 1963 statute a condominium consists of "the land, the building or buildings, all other improvements or structures thereon, and all easements, rights and appurtenances belonging thereto which have been submitted to the provisions of" Chapter 183A, section 1 (Supp. 1968). A condominium is created or submitted to Chapter 183A by executing and recording a master deed containing a statement that "the owner or owners propose to create a condominium to be governed by and

subject to the provisions of this chapter." In addition the master deed must describe in detail the land and buildings, give the proposed uses and restrictions on uses, the method for amendment of the deed, and the essentials of the organization of unit owners which will manage the common areas and facilities. Apparently the owners must also petition the land court to remove the land from chapter 185 "Title to Real Property." The impact of this section is not made clear. The statute exempts condominiums from the provisions of the Subdivision Control Law but not from zoning.

The statute does not expressly require that the land composing the condominium be contiguous. The language is that of land and buildings thereon. Building is defined as a structure "designed for dwelling or office purposes, containing <u>two or more</u> units comprising part of the condominium." (Emphasis added.) A clear answer cannot be given to the question of whether the condominium must be built on land that is contiguous. This definition does state that two or more units are needed to qualify under the 1963 statute. But note that FHA mortgage insurance under section 234 is only available to a condominium containing four or more units.

The statute leaves control over new neighbors,

who might enter through future transfers of ownership, to the by-laws of the organization of unit owners. The statute permits a right of first refusal exercisable by the organization of unit owners. But how meaningful is this for low income families who do not have ready access to funds with which to exercise the right of first refusal. And would this provide any protection against lessees of present owners; how can the non-leasing owners exercise control over the quality of such lessees? And what about a unit that is purchased at a tax foreclosure sales? For low income families there must be selection rights as opposed to a right to buy. Perhaps the by-laws could adequately deal with this problem.

III. Cooperatives compared to Condominiums

A. Flexibility. The condominium is more flexible for both the unit owner and the developer. It gives the unit owner financial independence; it allows each owner to design financing (downpayment, etc.) best suited for his individual needs. It gives the developer extra room to maneuver because he doesn't have to sell all units at once; he can sell some and rent some while waiting for the optimum market.

B. Security. The financial security of a unit owner in a condominium is not dependent on the solvency

of all the unit owners. If one owner is unable to maintain his mortgage, only that owner's unit is subject to foreclosure by the mortgage. In a cooperative all the members are burdened by the failure of any of them to meet their obligations to the mortgagor cooperative corporation. This can be significant when the members are low income families who are just barely able to meet the obligations attributable to their own living unit.

The condominium is also more favorable to the mortgagee than a cooperative because the mortgagee need only foreclose on one unit (at a time) and not on a blanket mortgage. Therefore the mortgagee's risks may be reduced. But if there is a high rate of foreclosure, it may be more costly to the mortgagee.

C. Status as a Homeowner. The plus goes to condominiums.

D. Transferability. The individual participant's interest is probably more readily transferable in a condominium structure than in a cooperative because: (a) the tenant-cooperator will not necessarily be able to find a buyer with the money needed to purchase his share of stock while the condominium unit owners can more readily find someone who can purchase with the aid of a real estate mortgage; it is not yet clear that FHA's

section 234 can be used to insure mortgages in sales after the initial unit purchase; (b) the tenant-cooperator is also a lessee. The other cooperators are likely to (and usually do) have stricter control over future residents through the lease and the share of stock in a cooperative than in the case of a condominium. This could be a debit for a condominium; the occupants may want strict control over future residents. Can the condominium use devices other than a right of first refusal to give the occupants control over who is their neighbor? Probably yes.

E. Assessment of common expenses. The holder of a condominium unit cannot be readily made to contribute towards common expenses. The by-laws generally provide for the manner in which assessments will be imposed. The normal procedure in condominiums provides for a covenant to be recovered subjecting the unit to a lien for unpaid assessments.

FHA regulations under section 234 require that common expenses be assessed against the owners of units in the condominium project in proportion to unit value.

The three chief areas of management of a condominium (maintenance, enforcement of payments to the

association, and insurance against fire and disaster) are often best handled by a professional manager as in a cooperative. This could be the developer or an MNB-MCA management corporation. The latter is more likely given current developer attitudes.

F. Equity. In general, cooperatives tend to place restrictions and curbs on resale prices. For example, they may restrict the selling cooperator to recovery of his "downpayment," or to recovery of "book value." These restrictions tend to lock the original cooperator into the transaction. The condominium is probably not faced with such restrictions. Note that a desire for full transferability probably conflicts with a desire to give owners control over future residents.

G. Federal Tax Aspects. The tax benefits, if any, are similar for both the condominium and the cooperative. Note that for low-income people tax savings, which can usually be obtained by either form of ownership, may be unimportant. On a large development designed for low income families, the significant tax benefit may come from reductions in rent or sales price because the developer is able to use the tax deductions to their fullest.

IV: Financing

A. Cooperatives. Under section 213, FHA can insure blanket mortgages on whole cooperatives. The cooperative must contain at least five units. The mortgage covers the construction, acquisition of existing housing, rehabilitation of detached, semi-detached, row, walkup, or elevator-type housing by a non-profit cooperative or trust, or the acquisition of such housing by a non-profit cooperative or trust from an investor sponsor. An investor sponsor can obtain mortgage insurance for the construction or rehabilitation of such housing but only for sale to non-profit cooperatives. Section 213 also provides mortgage insurance covering sale of individual units released from the cooperative project sales mortgage.

More importantly, cooperatives can be built or rehabilitated under a below market interest rate mortgage under sections 221(d)(3) (three-percent) or 236 (one-percent). These programs are analyzed elsewhere: see Chapter VIII and Appendix C.

B. Condominiums. Section 234. The project must contain at least four units. It is not restricted to non-profit entities. And section 234 provides mortgage insurance for the purchase of an individual unit by an

owner but only in projects containing at least five units and covered by an FHA-insured project mortgage.

The new 1968 Housing Act makes 3-percent mortgage money available to condominiums under section 221(d)(3) BMIR. In addition the individual owners can finance their units with lower interest rate loans insured under section 235, added in 1968.

APPENDIX J

HOUSING COSTS IN THE MODEL CITIES AREA

Summary

Housing in the Model Cities Area ranges from run-down 1 to 3 family homes built before the turn of the century to brand new multi-family complexes. The majority of the units tend toward the former. Prices are generally very low, reflecting age, condition, and lack of effective demand. A breakdown of typical costs is given in Table A below.

(1) New Construction

Single-family: A standard quality, wood frame, 3-bedroom, single-family house can be built in the area for between $18, 000 and $24, 000. The most likely cost would be near $20, 000. Bedrooms could be added or left out for about $1000 each.

Multi-family: Two- and three-family--In a building of this type the first unit can be built for about the same cost as a single-family home. The additional units can be built for 80% to 90% of the cost of the first.

More than three-family--Units can be produced for as little as $14, 500 each in very large complexes and for slightly higher costs according to the size of the project.

Principal variables in all cases are size, construction costs per square foot, and land costs. Most units would be constructed to minimum FHA size standards, which means they might be on the small side.

Standard construction materials and techniques can bring construction costs down to as low as $13 per square foot.

Land costs are also important. In some cases--such as urban renewal situations--land costs can be kept down to a few hundred dollars per unit. The upper limit would be $1500 for some single-family unit sites.

(2) Existing Standard Units

The majority of existing standard units in the area could be described as old, run-down, and unwanted. A large percentage are absentee-owned and are valued primarily on the basis of the return available to the owner. Because this return in many cases is negative (i.e., rental income does not cover the costs of carrying the property), these units change hands at exceptionally low prices. $1500 per unit is close to the bottom price but is not unusual. Units showing a positive return typically sell for $2500 to $3000.

Resident-owned units often tend to be in better condition and are less likely to be placed on the market

than their non-resident-owned counterparts. Prices for such units would range between $3000 and $5000.

Prices for recently constructed units are not included in the existing standard section because they are not generally on the market.

(3) Rehabilitation

Rehabilitation costs vary substantially, depending primarily upon the condition of the units. Average costs for rehabilitation work alone on a typical three-bedroom unit would be about $4500 to $6500 per unit; added to the purchase price, this would put the typical row unit in a price range of $7000 to $10,000 per unit.

TABLE A

CONSTRUCTION AND REHABILITATION PLUS ACQUISITION COSTS*

	Per unit cost		
	Low	Most Likely	High
New Construction			
Single-family	18,000	20,000	24,000
Two- to three-family	16,000	18,500	20,000
Multi-family	14,500	16,000	18,000
Rehabilitated			
Single-family	7,000	10,000	12,000
Two- to three-family	5,000	7,000	10,000
Multi-family	4,500	6,500	8,500**
Existing Standard Non-Resident			
Two- to three-family	2,000	2,500	3,000
Multi-family	1,500	2,000	2,500
Resident			
Single-family	3,000	5,000	9,000
Two- to three-family	2,000	3,000	4,000

* In all cases costs are for a standard size three-bedroom unit. Adding or leaving out a bedroom would alter the total cost by about 8%.

** Under some FHA programs total costs have reached $12,000/unit on multi-family structures.

TABLE B

OPERATING COSTS TO HOMEOWNERS

Hypothetical $15,000 three-bedroom unit. (Yearly figures)

Heat	$200	
Water & Sewer	40	
Insurance		
Mortgage	75	
Fire & Hazard	95	
		$410
Gas	25	
Electricity	60	
		85
Maintenance & Repair	100	
Reserves	200	
		300
	TOTAL	$795/year

This total would vary by about 5% per bedroom to yield the following:

	Monthly	Yearly
One-Bedroom	$60	$720
Two-Bedroom	63	755
Three-Bedroom	66	790
Four-Bedroom	69	830

Economies of scale would bring these totals down by about 5% per unit in most multi-family units.

APPENDIX K

INSURANCE

For a low income family uninsured home ownership can bring disaster. Uncontrollable factors--health, natural catastrophes, accidents and unemployment--have a profound impact on the family's income position. Fluctuations in income can easily lead to default and foreclosure. Loss of equity through default represents a serious loss to a family. This loss is more serious for lower income than higher income families because the homeowner's equity represents a larger proportion of the low income family's savings. Therefore, we should encourage only home ownership programs that minimize the risk of economic loss--which means limiting the risk of default to the owner.

Foreclosure, or threat of foreclosure, in addition to economic consequences, can also have undesirable social repercussions upon the family. Foreclosure means that a family loses its home and the security the home represents. It forces the family to move. If accommodations cannot be found in the same locality, family ties with the community will become severed. Separation from familiar surroundings and friends

usually causes psychological distress to family members. A high default rate, moreover, may result in a negative community attitude toward home ownership and toward MCA-MNB as sponsors of home ownership.

The threat of foreclosure is equally undesirable. In this situation, uncertainty about staying in the unit creates psychological barriers to making investments in the house; an owner is not apt to invest in improvements if he feels his investment is threatened. The result could be a reduction in maintenance, which would increase the rate of deterioration.

A lack of commitment to one's home may carry over into one's attitude toward community affairs and improvements. The owner who is fearful for his investment in his home, and, therefore, hesitant about investing in the unit, would certainly be more skeptical about investing time and/or money into community improvements. If better security is provided the owner, who knows that temporary income fluctuations will not lead to the loss of the home, can be encouraged to take a more positive view of investing in his own home and community. Conversely, if a homeowner has no commitment to his community, he may lack the incentive to improve his own property. In the Model Cities Area there is a

growing commitment to community.

Given these social and economic implications of ownership, homeowner insurance, which insures debt service, is one method of default protection which should be a part of any successful and rational low income homeowner program. The objectives of this insurance are quite clear. First, insurance is a means of preserving a family's financial investment in the home. Insuring debt service both reduces the risk of equity loss by foreclosure and enhances the family's sense of security about the permanence of the home.

An insurance program can be seen in the context of two distinct time periods. The first period exists when equity accumulation (repayment of mortgage principal) is small, normally during the first years of ownership. The second period begins when the accumulated equity position of the owner has become substantial.

The first phase of ownership would undoubtedly require an insurance program operated by either an insurance company or, possibly, a local development fund. Regardless of the organizing body, the plan would involve yearly premium payments by the owner, probably subsidized by the government, which would guarantee that any default on debt service for a designated number

of months would be covered by the insuring agent. These payments should probably cover interest and taxes, with the bank deferring payment on principal. When the owner resumed his payments, the mortgage would be readjusted at the original interest rate to account for the missed principal payments.

If the insurance payments were too expensive, premiums could be incorporated into the mortgage. Assuming a house cost $15,000 and was eligible for FHA insurance, and figuring an insurance period of ten years at a cost of $10/month, the total cost of insurance would run $10 x 12 months x 10 years, or $1200. We can compute, at 5%, for illustrative purposes, that the present value of ten years of premium payments is equal to $1000. By issuing a $16,000 mortgage, $15,000 to pay off the house and $1000 lump sum payment to the insuring agent, the low income person can extend his premium payments over the full term of the mortgage.

An alternative to insurance during the first period (low equity accumulation years) could be implemented through a non-profit sponsor. A house is built by the non-profit sponsor who assumes initial title to the property. The house is sold to the low income owner under the stipulation, with the consent of the mortgage lender,

that in case of default, the non-profit sponsor will take over title of the property and the owner will return to rental status. When the tenant's income increases, title will be reinstated without loss of equity to the owner. This system could be very effective if coupled with the leased public housing program. When the owner defaults and reverts to renting, and if he is eligible for leased public housing, he can receive the benefit of a subsidy which would (1) assist the low income family to meet its rent bill and (2) allow for continued payment of the mortgage by the non-profit sponsor. If HAA subsidies were available to title holders, this form of insurance would be unnecessary.

The second period, when equity accumulation is substantial, presents an opportunity for the low income family to insure himself. The concept of self-help requires an automatic loan provision in the mortgage whereby the owner can borrow funds against his own equity to meet his debt payments. When an owner defaults, the bank automatically takes a loan against the accumulated equity to pay off the debt. This reduces the accumulated equity by the amount of the loan and the mortgage is readjusted to reflect this change. A minimum floor on equity is established below which the

loan-on-equity procedure is inoperative.* By using this plan the insurance agency, with its additional costs, is eliminated. Moreover, the owner knows that he has the capacity to insure his own home.

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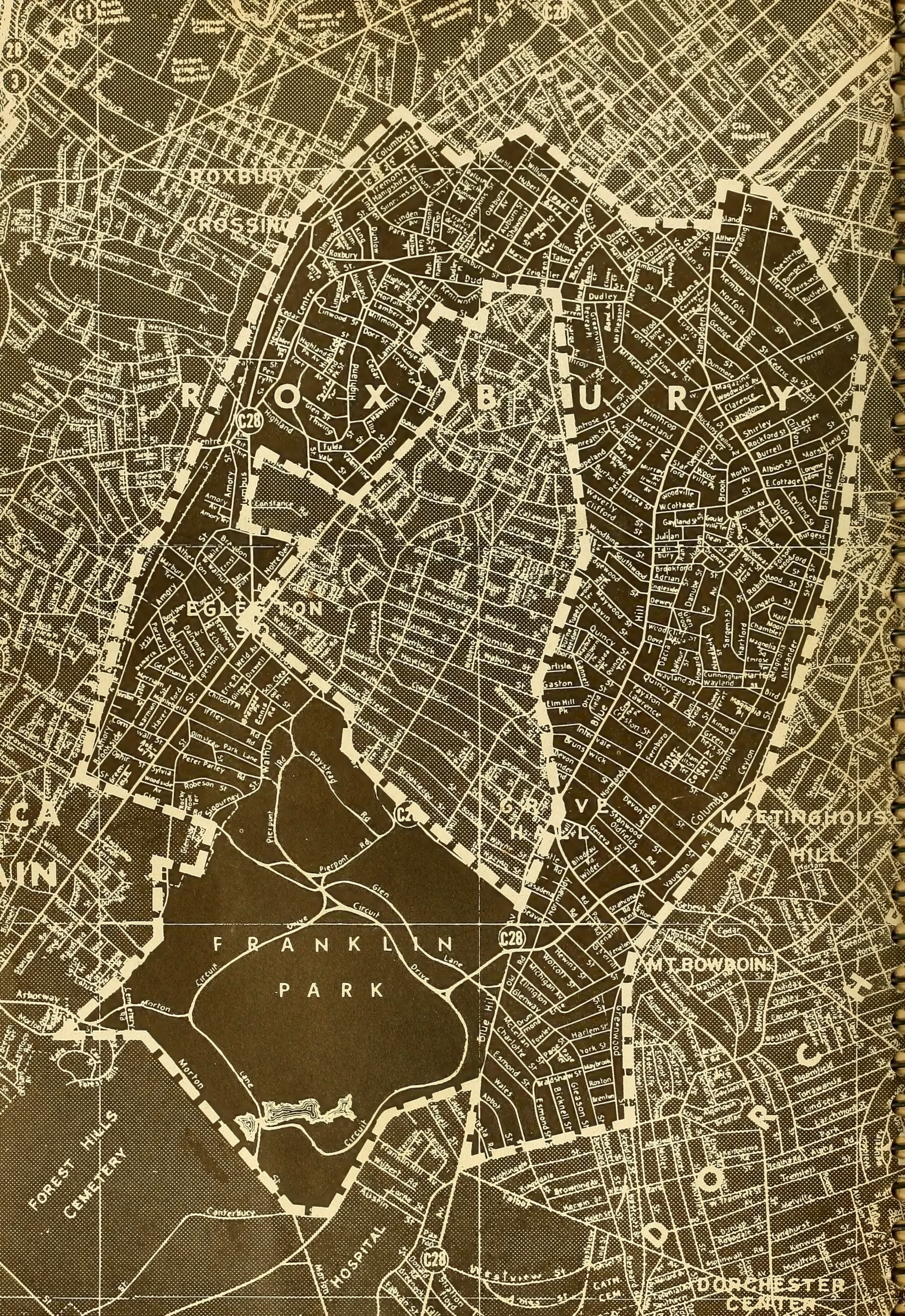
* Below the minimum floor, the owner would be subject to foreclosure if he failed to meet necessary payments. The problem presented by this situation as well as the problem of distinguishing between real defaults and temporary ones, under any insurance scheme, must be studied in greater detail.


ROXBURY
ROXBURY CROSSING
R O X B U R Y
EGLESTON
FRANKLIN PARK
GROVE HALL
MEETINGHOUSE HILL
MT. BOWDOIN
DORCHESTER CENTER
FOREST HILLS CEMETERY
HOSPITAL